

## A Comparative Approach to Assess the Impact of Supporting Institutions' Training on SMMEs

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**Abstract:** The aim of this paper is to assess the impact of training opportunities offered by public and private supporting institutions on the start-up and growth of Small, Medium and Micro Enterprises (SMMEs). This paper adopts a comparative, quantitative research approach and highlights the perceptions of the Lesotho and South Africa's SMMEs vis-a-vis training opportunities provided by local supporting institutions. Findings reveal that entrepreneurs in Maseru, Lesotho mostly rely on self-learning, while most entrepreneurs in Pietermaritzburg, South Africa acquired entrepreneurial skills through attending training lessons offered by the supporting institutions. Although the findings reveal that there is a positive correlation between providing training and relevance of the training to the current needs of SMMEs, only fewer SMMEs in Maseru indicated that the training they received was relevant to their needs. However, in Pietermaritzburg, slightly above half of the respondents indicated that the training received is relevant to their business needs. The findings further reveal that there is a significant effect of receiving training on business growth. The respondents who did not receive any training had the lowest overall business growth while those who received training from government have the highest overall growth. In light of the findings, this paper recommends monitoring and evaluation of the training services and involvement of SMME owners in the design of the training programs to ensure that the training opportunities are relevant to the current needs of the SMMEs.

**Keywords:** Lesotho; South Africa; relevant training opportunities; SMMEs

**JEL Classification:** M19

### 1. Introduction

Globally, it is perceived that the development of the SMME sector contributes to countries' economic growth (Chetty, 2009; Nyamunda, 2009). This has propelled governments to intervene either directly or indirectly through the establishment of

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public and private supporting institutions. Although there is evidence that SMMEs contribute to job creation (which in turn contributes to poverty alleviation), however, in most cases SMMEs businesses are not sustainable (Ngcobo & Sukdeo, 2014). There is a perception that interventions by the public and private institutions do not assist much and may even hinder the establishment and the sustainable growth of SMMEs instead of assisting SMMEs to achieve their goals (Meltzer, 2010).

Supporting institutions assist SMMEs at strategic and operational levels (UNDP, 2004; Small Business Promotion (SBP) Alert, 2014). They provide services such as training support to newly established and already existing businesses at the start-up and growth phases. However, Jackson (2004) and Chetty (2009) report that entrepreneurs are unaware of supporting institutions and do not make use of their services. The Organisation for Economic Cooperation and Development (OECD, 2004) also reports that often, Small and Medium Enterprises are unaware of business support programmes available to them. It is also perceived that even when entrepreneurs are aware of such support, they do not make use of such institutions, probably because entrepreneurs have tight schedules (Chetty, 2009). Furthermore, some SMME owners who make use of support programmes provided by the supporting institutions, believe these institutions do not satisfy their needs (Jordana & Levi-Faur, 2004).

The focus of this paper is on the training opportunities provided by the supporting institutions both in Maseru and Pietermaritzburg. (Lesotho and South Africa respectively) The aim is to identify the gaps between the provision of training opportunities and SMME owners perceived relevance and impact of such training.

## **2. Literature Review**

### **2.1. The Need for Supporting Institutions' Services**

There are arguments for and against public and private supporting institutions' interventions. On one hand, proponents of support institutions argue that, if left alone, SMMEs are unable to grow. Therefore, public and private support interventions geared towards helping SMMEs to grow should be encouraged (Borooah, 2003; Hausman, 2008). According to Griffin (2010); Nenzhelele (2014), the business world, in which the enterprises are operating, is very dynamic and unpredictable. This kind of business environment compels governments to back up enterprises' survival through the establishment of public and private supporting institutions. Training is one of the interventions by the public and private supporting institutions that assist in the start-up and the sustainable growth phases of SMMEs. The perception is that training support helps SMMEs perform better than SMMEs whose entrepreneurs did not attend any training (Denby, 2010; Ahmad & Xavier, 2012). Inaccessibility to training opportunities may lead to slow business growth, as

businesses may not sustainably grow if entrepreneurs are not equipped with necessary skills to cope with the changing local or global business environment (Global Entrepreneurship Monitor (GEM) Report, 2009). Therefore, the provision of public and private supporting institutions creates a favourable environment for businesses to grow, signifying that the absence of public and private supporting institutions could hinder SMMEs positive performance (Sanjeevkumar & Yanan, 2011; Ahmad & Xavier, 2012).

On the other hand, the opponents argue that interventions by public and private supporting institutions have limited effectiveness in promoting business development (Pillay, 2006; Meltzer, 2010). According to Khoase and Govender (2013), when creating a conducive environment for businesses, governments may discourage SMMEs business operations. Despite the presence of the public and private supporting institutions, some small businesses still operate informally, thus, not making use of supporting institutions. Small businesses could be operating informally because they are either not aware of the existing business support centres, or consider procedures involved in formalising their businesses to be cumbersome (Chetty, 2009). In addition, entrepreneurs may not make use of the supporting institutions because they believe that supporting institutions are not able to create an enhanced business environment (Chetty, 2009).

However, Ghobakhloo, Arias-aranda and Benitez-amado (2011) and Lesáková (2012) emphasize that most businesses who receive adequate support in their initial start-up stage have a better chance to grow and be sustainable. At the start-up phase, businesses are in a very fragile state as they incur expenses such as wages, insurance, rental charges, advertising and marketing costs. (North, 2005) At the start-up phase, entrepreneurs need support in terms of acquiring skills and other various kinds of assistance. (Wright & Marlow, 2012; Herrington & Kew, 2014) A supportive environment enables SMMEs to evolve and mature, hence increasing the prospects of job creation.

### **2.1.1. Training within the SMME Sector**

In the 21st century, the business environment requires entrepreneurs to be equipped with relevant skills and knowledge to remain competitive in the rapidly changing business world (Mazanai & Ngirande, 2014). Entrepreneurial skills are acquired and enhanced essentially when SMME owners attend training programmes (Mahadea & Pillay, 2008; Maluleke, 2013). Studies have found that training programmes (either generalised or customised), improve SMME owners' entrepreneurial skills, thus contributing to their sustainable success. (Maluleke, 2013) According to Egelsner and Rena (2013), since the SMME sector is diverse, it is perceived that there is a need for diverse training programmes. They further suggest that continuous entrepreneurial training that combines theory with practice enhances the

development of the SMME sector. Training is not only meant for owner/managers of SMMEs, but also for all employees (Egelsner & Rena, 2013).

According to Maluleke (2013), provision of general training to SMMEs is important, as it enables the supporting institutions to reach a large number of SMMEs in a short period of time with fewer resources compared to customised training. Maluleke (2013) further adds that although customising training programmes to a specific SMME group or sector is very expensive, however, it is more rewarding since entrepreneurs are equipped with the relevant training that meets their current specific needs. Furthermore, inviting successful entrepreneurs to share their experiences with other entrepreneurs is one of the ways to provide relevant training. Moreover, bringing SMMEs from the same sector together to share knowledge in related business activities, is perceived to enhance the exchange of information (Maluleke, 2013).

## **2.2. Supporting Institutions in Lesotho**

In Lesotho, lack of employment opportunities in rural areas is the major cause of the workforce migration to urban areas (Langwenya, Mabuza & Tshabalala, 2011). Hence, developing SMMEs in urban areas needs attention as such enterprises have the potential to create employment for the rural workforce. It is perceived that the growth of SMMEs would result in higher levels of employment and poverty reduction. The Lesotho SMME policy has prioritised entrepreneurship training or skills development as a key intervention (Lesotho Government, 2011). In 2008, the Small Business Promotion reported that there are supporting institutions in Lesotho that provide different services including training which is offered at a certain fee. However, these institutions were perceived to be ineffective. (SBP, 2008) Furthermore, Langwenya *et al.* (2011) claim that in Lesotho, Business Development Service (BDS) providers such as BEDCO (Basotho Enterprises Development Corporation), the SMME Support Network-Lesotho, LNDC (Lesotho National Development Corporation) and MGYSR (Ministry of Gender and Youth, Sports and Recreation) provide, amongst others, training opportunities to SMMEs at start-up and growth phases. In 2014, the Lesotho Enabling Environment for Sustainable Enterprises (ESEE) survey (2014), examined whether the skills possessed by workers are demand-driven. The findings revealed that only one-fifth of all the respondents possess relevant and appropriate skills for business operation. Hence, there is a need to provide relevant training but also to devise innovative ways to stimulate entrepreneurs to attend training sessions.

## **2.3. Supporting Institutions in South Africa**

Mahembe (2011) stipulated that despite the initiatives taken from 2009 to develop the SMME sector, there is still a skills gap in the SMME sector of South Africa. He argues that the skills gap is partially due to the fact that oftentimes entrepreneurs within the SMME sector are content with just the minimum skills that they have to

run their businesses. Hence, they do not feel that they need to upgrade their skills or sometimes do not create time to attend business training sessions. Furthermore, he claims that some supporting institutions charge fees for training that entrepreneurs cannot afford, and this hinders the prospects for entrepreneurial skills upgrade. According to the Global Entrepreneurship Monitor (GEM) Report (2009), in the context of South Africa, entrepreneurs suffer from poor management skills which allegedly is a consequence of insufficient business-related training and education. Such poor management skills lead to high rates of business failure. Chetty (2009) opines that although South Africa has established public and private supporting institutions to develop SMMEs, the effectiveness of these institutions has not been investigated extensively. Scanty research undertaken to specifically assess the effectiveness of these institutions indicated that most of these institutions and their interventions are unknown to SMME owners (Chetty, 2009).

In 2013, the South African government established the Department of Small Business Development (DSBD). Its mandate is to deliver dedicated and focused support to small businesses. The DSBD pin-pointed the improvement of the effectiveness and reach of the supporting institutions among its priorities. In addition, the department is also commissioned to ensure that common challenges faced by the SMME sector are addressed in a coordinated way. Ngcobo and Sukdeo (2014) argue that despite the initiatives in place to develop the SMME sector, there are still institutional barriers that hamper the development of the SMME sector in South Africa. In addition, there are deficiencies in the implementation and coordination of the supporting institutions' programmes (Muzondi, 2014).

### **3. Research Methodology**

The population in this study included SMME owner/managers in the manufacturing, retailing and services sectors located in Maseru (Lesotho) and in Pietermaritzburg (South Africa). The sample size consisted of a mixture of females and males of different age groups. A questionnaire comprising close ended questions was hand-delivered to 379 and 384 SMME owner or managers in Maseru and Pietermaritzburg respectively. The respondents completed the questionnaires in their own time, and any doubts that they had regarding any question were clarified at the time when the questionnaires were collected. The questionnaire comprised two sections. Section A captured the demographics of the respondents such as the gender, race and the highest formal education of the respondents, using nominal questions. Section B comprised Likert scaled (1=Not significant at all to 5=Very significant) close ended questions to identify the contribution of training towards the growth of SMMEs. It also comprised questions pertaining to the relevance of training. In this regard, participants were asked (on a Likert scale of 1=Strongly disagree and 5=Strongly agree) whether they received training to establish or grow their businesses and

whether the training they received was relevant to their current business needs. Finally, the last set of questions in section B aimed at revealing the type of training they received at the start-up and growth phases. A total of 270 and 210 usable responses were received from Maseru and Pietermaritzburg respectively. Cluster sampling combined with stratified random sampling method were used to identify SMMEs from Maseru while in Pietermaritzburg, snowball and convenient sampling methods were used. The responses were first coded. Subsequently, data were analysed using SPSS for Windows, Version 22. Furthermore, correlation analysis coupled with Principal Components Analysis (PCA) were employed to test the significance of potential relationships amongst the variables.

## **4. Findings**

### **4.1. Demographics**

In Maseru, 49.3 percent of respondents were males and 50.7 percent were females. In Pietermaritzburg, 51.4 percent of respondents were males while 48.6 percent were females. Respondents were mainly SMME owners (Maseru (27.3%); Pietermaritzburg (21.9%)) then managers (Maseru (20.6%); Pietermaritzburg (14.8%)) and lastly other staff members (Maseru (8.3%); Pietermaritzburg (7.1%)). In Maseru and Pietermaritzburg, most respondents were aged between 20 and 39 years (30.4% and 22.9% respectively). In Maseru the highest qualification of the respondents was a bachelor's degree (17.3%) followed by Matric (15.2%), while in Pietermaritzburg, the highest qualification was Matric (17.1%) followed by Diploma (15.8%).

### **4.2. Training Received at the Start-Up Phase**

Table 1 displays the responses concerning the training received by SMME owners from the supporting institutions at the start-up phase. In Maseru, 62.2 percent of the respondents acquired skills by themselves, without attending any training offered by the supporting institutions. This is followed by 20.4 percent who acquired management skills from the supporting institutions at the start-up phase. On the other hand, in Pietermaritzburg, the large proportion of respondents (42.4%) acquired marketing skills from the supporting institutions and 36.7 percent have acquired business planning skills from the supporting institutions.

**Table 1. Training received at start-up phase**

Skills received at start-up phase	Location			
	Maseru		Pietermaritzburg	
	Yes	No	Yes	No
Did you receive management skills at the start-up phase?	N=55 20.4%	N=215 79.6%	N=71 33.8%	N=139 66.2%
Did you receive marketing skills at the start-up phase?	N=41 15.2%	N=229 84.8%	N=89 42.4%	N=121 57.6%
Did you receive business planning skills at the start-up phase?	N=52 19.3%	N=218 80.7%	N=77 36.7%	N=133 63.3%
Did you receive financial management skills at the start-up phase?	N=39 14.4%	N=231 85.6%	N=73 34.8%	N=137 65.2%
Self-learning at the start-up phase?	N=168 62.2%	N=102 37.8%	N=45 21.4%	N=165 78.6%

#### 4.3. Training Received at the Growth Phase

Table 2 displays the responses concerning the training received by SMMEs from the supporting institutions at the growth phase. Entrepreneurs acquired different skills at the growth phase in Maseru and Pietermaritzburg either through attending lessons offered by supporting institutions or through self-learning. The most acquired skills are management skills and marketing skills in Maseru and Pietermaritzburg respectively. In Maseru 62.2 percent relied on self-learning, while in Pietermaritzburg only 21.4 percent relied on self-learning. Training programmes to equip entrepreneurs with necessary skills are available in both locations. However, utilisation of such services is low, especially in Maseru. One of the perceived reasons for low utilisation of services is that entrepreneurs are relying on their own knowledge and are not willing to expand their knowledge (Mahembe, 2011). They might also not be aware of the available supporting institutions providing training (Chetty, 2009).

**Table 2. Training received at growth phase**

Skills received at growth phase	Location			
	Maseru		Pietermaritzburg	
	Yes	No	Yes	No
Did you receive management skills at the growth phase?	N=35 13.0%	N=235 87.0%	N=42 20.0%	N=168 80.0%
Did you receive marketing skills at the growth phase?	N=44 16.3%	N=226 83.7%	N=62 29.5%	N=148 70.5%
Did you receive business planning skills at the growth phase?	N=42 15.6%	N=228 84.4%	N=39 18.6%	N=171 81.4%
Did you receive financial management skills at the growth phase?	N=50 18.5%	N=220 81.5%	N=44 21.0%	N=166 79.0%
Self-learning at the growth phase?	N=168 62.2%	N=102 37.8%	N=45 21.4%	N=165 78.6%

#### 4.4. Relevance of Training

In Maseru, 26.30 percent of the respondents mentioned that the training received was relevant to their current needs compared to 50.48 percent in Pietermaritzburg. Training received at the growth stage has the highest Principal Components Analysis (PCA) score in Maseru (0.964) meaning it is the most significant score in the calculation of the overall PCA index score for training. In Pietermaritzburg however, training received at the start-up level (0.985) has the highest PCA score.

In Maseru, there is a strong positive correlation between providing training (at the start-up and growth phases) and meeting current needs of SMMEs ( $r(270) = 0.875$ ,  $p < 0.01$ ;  $r(270) = 0.923$ ,  $p < 0.01$ ). In Pietermaritzburg also, there is a strong positive correlation between training offered at start-up and growth phases and the relevance of the training on current needs of the businesses ( $r(210) = 0.967$ ,  $p = 0.000$ ;  $r(210) = 0.901$ ,  $p = 0.000$ ).



**Table 3. Relevance of training to current needs of businesses**

Pearson Correlations		Location			
		Maseru		Pietermaritzburg	
		Receiving training to establish my business	Receiving training to grow my business	Receiving training to establish my business	Receiving training to grow my business
Relevance of training to the current needs of my business	Correlation	0.875**	0.923**	0.967**	0.901**
	p-value	0.000	0.000	0.000	0.000
	N	270	270	210	210

\*\* . Correlation is significant at the 0.01 level (2-tailed).

This finding emphasizes the need to ensure that the training provided to SMME owners in both locations is relevant to their needs. Relevant training enables entrepreneurs to be effective and hence enhances the competitiveness and performance of their enterprises (Terrana, Dowdell, Edwards, Tahsin, Cacciaccaro & Cameron, 2016; Shree, 2017). In addition, training has to be provided continuously to ensure that owner-managers are equipped with the required current knowledge and skills for the sustainability of their businesses (Bimpitso & Petridou, 2012; Mazanai & Ngirande, 2014).

#### 4.5. Impact of Training Support on Growth of SMMEs

Results in Table 4 below indicate that there are no significant differences in the business growth of SMME owners who received training from different institutions in Maseru ( $F=0.98$ ,  $df_1=5$ ,  $df_2=264$ ,  $p\text{-value}=0.433$ ). In Pietermaritzburg, there is a significant effect of receiving training on business growth ( $F=3.74$ ,  $df_1=3$ ,  $df_2=206$ ,  $p\text{-value}=0.012$ ). Respondents who did not receive any training had the lowest overall business growth (mean=2.67) while those who received training from the government have the highest overall growth (mean=3.13).

**Table 4. Impact of training support on growth of SMMEs**

Maseru	Descriptive statistics				ANOVA Tests			
	Institution	N	Mean	Std. Dev.	F	df1, df2	p-value	Comment
Overall Growth of business due to receiving Training	Government	1	2.00	-	0.98	5, 264	0.433	No significant differences
	Private	16	3.13	0.93				
	Parastatal	45	3.00	1.24				
	None	199	2.76	1.12				
	Private & Parastatal	6	2.77	1.30				
	Government & Parastatal	3	2.00	0.87				

Pietermaritzburg	Descriptive statistics				ANOVA Tests			
	Institution	N	Mean	Std. Dev.	F	df1, df2	p-value	Comment
Overall Growth of business due to receiving Training	Government	38	3.13 <sup>b</sup>	0.72	3.74	3, 206	0.012	Significant differences
	Private	64	3.09 <sup>b</sup>	0.71				
	None	99	2.67 <sup>a</sup>	1.09				
	Government & Private	9	2.89 <sup>ab</sup>	1.087				

## 5. Conclusion and Recommendations

Previous studies have attested that SMME owner-managers in Lesotho lack skills although there are supporting institutions that provide skills development services in the country at the start-up and growth phases such as BEDCO and SMME Support Network (SBP, 2008; Langwenya et al., 2011). It is perceived that the Lesotho SMME policy has prioritised entrepreneurship training or skills development as a key intervention to reduce the shortage of skills despite the availability of supporting institutions that provide skills development services (Lesotho Government, 2011). Although in Maseru and Pietermaritzburg supporting institutions provide management, marketing, business planning and financial management training, however, in Maseru, the utilisation of such training opportunities is very low compared to Pietermaritzburg. In Maseru, only 24.44 percent of the respondents confirmed that they received training at start-up phase, and 23.70 percent received training at growth phase. Most entrepreneurs in Maseru (62.2%) still rely on self-learning compared to those who are based in Pietermaritzburg (only 21.4% rely on self-learning). In Pietermaritzburg, above half (50.48%) of the respondents concurred that they received training relevant to their current needs compared to only 26.30 percent in Maseru. This is probably due to the fact that there are more SMMEs in Pietermaritzburg that received training compared to Maseru. Non-utilisation of training opportunities provided by the supporting institutions could mean that, entrepreneurs are unaware of the available supporting institutions, or it is because they find attendance very time consuming and expensive (Chetty, 2009; Mahembe, 2011). There is a need for empirical research that investigates factors that impede the utilisation of the training opportunities in both locations.

It is the responsibility of the public and private supporting institutions to ensure the relevance and effectiveness of their training programmes and to advertise extensively the programmes they offer and specify how SMMEs can access them. It is also suggested that supporting institutions involve SMME owners in formulating programmes to ensure that these programmes are demand-driven and effective. It is further recommended that training provision should be sufficiently flexible and

innovative to attract a larger number of SMME owners. Moreover, training should be monitored to determine the suitability of the programmes to the concerned parties.

Further research to obtain a better perspective on the influence of the training opportunities offered by the public and private supporting institutions on SMMEs development could be undertaken. Opinions from both the formal and informal SMME owners in rural and urban settings could provide a better perspective on the perceived influence of the supporting institutions' training on SMMEs' development. It is perceived that such research could assist the supporting institutions during their strategy formulation to formulate implementable and acceptable strategies.

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