

# Impact of Business Empowerment Workshops on Growth of SMMEs towards Radical Economic Transformation

Londiwe MHLONGO\* and Adenike SOOGUN

MANCOSA Graduate School of Business, South Africa

*Small, Medium and Micro-sized Enterprises (SMMEs) in South Africa continue to endure economic challenges in spite of their entrepreneurial activities and potential for growth. The study's purpose was to investigate the impact of business empowerment workshops on the growth of SMMEs towards radical economic transformation in a South African municipality. Small businesses continue to struggle in spite of being recognised as important contributors to growth in the country and have been on the national agenda since 1994. This study analysed the current state of small business in a particular municipality and examined initiatives to assist small businesses and their current obstacles, and what could be done to encourage small business growth. The study proposed to introduce ways on how growth could translate into improvements in the lives of workers and the community thereby reducing the unemployment rate in the province. There was a general agreement about funding opportunities becoming available after attending the workshops. A quantitative approach was utilised with the use of a survey questionnaire. One recommendation was the establishment of a special purpose fund invested through an insurance institution towards resuscitating SMMEs that face growth-related challenges.*

**Keywords:** business intelligence, business plans, entrepreneurial competence

**JEL Classification:** O43

## 1. Introduction

The African modern economy is no better than before in terms of job creation due to the increasing economic challenges faced by the global economy. These challenges have also negatively impacted Small, Medium and Micro-sized Enterprises (SMMEs) which, unfortunately, do not seem to be doing well in terms of faster business establishment, and sustained growth towards radical economic transformation. The purpose of the study was to investigate the impact of business empowerment workshops on the growth of SMMEs towards radical economic transformation in a South African municipality. It has been more than five years

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\*Corresponding Author:

Londiwe Mhlongo, MANCOSA Graduate School of Business, 16 Samora Machel St, Durban Central, Durban, 4001, South Africa

Article History:

Received 4 November 2020 | Accepted 22 February 2021 | Available online 18 April 2021

Cite Reference:

Mhlongo, L. and Soogun, A., 2021. Impact of Business Empowerment Workshops on Growth of SMMEs towards Radical Economic Transformation. *Expert Journal of Economics*, 9, pp.1-8.

now after the launch of business empowerment workshops across the province but it is unknown whether the workshops are effective.

Thousands of SMME owner-managers had attended business empowerment workshops whose primary focus is to influence sustainable business growth to create a vibrant local economy capable of generating much-needed jobs.

### **1.1 Research Objectives**

The following objectives were developed to address the study:

- To assess the impact of business empowerment workshops as a tool to grow SMMEs in a South African municipality.
- To investigate the challenges facing SMMEs in the municipality
- To determine the relationship between SMMEs' growth and radical economic transformation.
- To provide recommendations on how business empowerment workshops can be effectively used as a tool to empower SMMEs' growth.

### **1.2 Significance of the Study**

The findings of this research would be of assistance to the management of the municipality in many ways. Firstly, the study will usher in ways of how SMMEs may be enhanced through empowerment. If SMMEs are empowered this could translate into their better performance, leading to sustenance and growth. Growth may translate into improving the lives of the entrepreneurs as well as those of the workers and the community. In the end, the unemployment rate may be reduced. The study could also contribute to the existing literature on the empowerment of SMMEs.

## **2. Literature Review**

According to Welter (2017, p.310), "empowerment entails all the activities put in place to provide basic opportunities to marginalised individuals through training workshops towards enhancing their economic status in the respective communities" (Welter, 2017, p.310). Indirect empowerment refers to the provision of training by the empowered people or by people who work for an organisation that provides empowerment to communities. Empowerment meant the process of enhancing individuals who want to start SMMEs through several ways such as work-shopping, giving them material and financial resources, training them in strategies for SMME' growth as well as changing their mindset towards the traditional challenges.

### **2.1 Understanding SMMEs and the Link to Radical Economic Transformation**

SMMEs are a subject of great importance and relevance to any economy because they involve the formation of companies, which supply people with the goods and services they need resulting in the creation of jobs. The purpose of this study is to encourage and empower the upcoming SMMEs in their entrepreneurial endeavours so that they can go into their communities and form new companies, develop existing businesses and create much-needed jobs for South Africa in pursuit of a radical economic transformation agenda.

Luttrell, Quiroz. Scrutto and Bird (2012, p.300) define SMMEs as any informal business venture established by marginalised individuals. Kabeer (2012) argues that the definition of SMME varies from country to country. However, one thing common to each country's definition is that SMMEs depicts an informal business venture. Luttrell *et al.* (2012, p.300) highlight that informality means that the registration process of such a business does not have to follow the formal procedures that go with normal company registration. Radical economic transformation entails a multi-pronged long-term initiative towards empowering citizens in the various sectors of the economy ranging from establishing SMMEs, employment creation and overall participation in the economy (Datta and Gailey, 2012, p.145). The most dynamic societies in the world are the ones that have the most entrepreneurs, plus economic and legal structures to encourage and motivate entrepreneurs to greater activities. The South African economy is currently experiencing a high unemployment problem. Entrepreneurship is, therefore, critical in both creating much-needed job opportunities for its citizens and producing products and services. The trend around the world is that small businesses create more jobs than large companies, especially in the informal sector.

### **2.2 Challenges Facing SMMEs**

According to Dahlia (2015:26), SMMEs face huge challenges, which include financing, operational and general management as hindrances to the growth of the firm. SMMEs rely on loans offered by financial

institutions, however, the financiers have numerous expectations from the SMMEs which include the following:

*Capital:* Lenders expect SMMEs to possess a small amount of capital which demonstrates that the business is stable enough to lend the SMME the kind of financial assistance they deserve (Dahlia, 2015, p.26). Most financial institutions deny lending to SMMEs, citing under-capitalisation as the main reason for the decline (Kiggundu, 2012, p.239). According to Kiggundu (2012, p.239), lenders regard capital as a risk-sharing strategy with entrepreneurs.

*Capacity:* In the context of financial lending capacity, this entails the cash flow strength of the SMME (Lee and Denslow, 2015, p.77). In this case, banks are motivated to lend by a healthy cash flow as they expect SMMEs to pass the test of liquidity in the short run. Liquidity is about the ability of the SMME to pay its short-term debts at any time (Lee and Denslow, 2015, p.77).

*Collateral security:* According to Lee and Osteryoung, (2011, p.200), collateral security refers to the assets possessed by the SMME as a pledge to a lender as security for repayment of a loan. Thus, if the SMME defaults on the loan, the lender would attach the collateral security. The challenge is that SMMEs do not have collateral security (Lee and Osteryoung, 2011, p.200).

*Character:* Venter, Urban and Rwigema (2012, p.290) define character as the personal characteristics that define the lenders' behaviours based on the SMME owner-managers' honesty, integrity, competence, polish, determination, intelligence and ability. Venter *et al.* (2012, p.290) argue that it is very difficult for lenders to determine the entrepreneurs' character, but lenders would make use of credit reference checks to establish the characters of potential or current SMME owners.

*Conditions:* Before lenders decide to lend to SMMEs, attention is given to the current growth of the SMME and if the firm's history portrays poor growth, the lender would not provide funding citing poor growth rate. Lenders and investors consider factors relating to a business's operation such as potential growth in the market, competition, location, strengths, weaknesses, opportunities, and threats (Venter *et al.*, 2012, p.290).

### **2.3 Management and Operational Challenges**

According to Venter *et al.* (2012, p.290), SMMEs faces management errors, which account for about 95% of business failures. For most SMMEs, poor management is the primary cause of business failure (Venter *et al.*, 2012, p.290). The following business managerial challenges are presented as common to SMMEs: Lack of expertise, poor financial control, weak marketing efforts, failure to develop a strategic plan, uncontrolled growth, poor choice of a business location, improper inventory control and incorrect pricing.

### **2.4 Theoretical Framework on What Drives the Success Of Smmes**

#### **2.4.1 The Human Capital Theory**

The success of SMMEs as an entrepreneurial venture can be viewed from the human capital theory perspective. The "human capital theory argues that the knowledge possessed by the entrepreneurs for the benefit of the SMME provides individuals with increases in their cognitive abilities, leading to more productive and efficient activity" (Rwigema and Venter, 2014). "Once engaged in the entrepreneurial process entrepreneurs should also have superior ability in successfully exploiting opportunities. The human capital variables are largely acquired on an individual basis and consist of a combination of skills, knowledge and resources that distinguish an entrepreneur from his or her competitors" (Rwigema and Venter, 2014). The ability to act in entrepreneurial manner is associated to "education, work experience, entrepreneurial experience, prior knowledge of customer problems, and experiential knowledge as variables" (Rwigema and Venter, 2014). According to Rwigema and Venter (2014), "these variables influence the success of an entrepreneur".

#### **2.4.2 Knowledge**

A new venture has few resources other than the knowledge of the entrepreneur. The entrepreneur ought to gain new knowledge and abilities during the start-up process towards the new venture's success. Such knowledge is critical for controlling and applying the resources needed for the new venture's success (Rwigema and Venter, 2014, p.43). The critical knowledge for entrepreneurial venture success includes management knowledge, technical knowledge and financial knowledge.

#### **2.4.3 Education**

According to Lee and Denslow (2015), "formal education is one component of human capital that helps in the accumulation of knowledge that may provide skills useful to entrepreneurs". Lee and Denslow (2015) argue that education plays a central role in the growth of entrepreneurs, as emphasized by the human

capital theory. According to Rwigema and Venter (2014, p.44), human capital theorists argue that education is the most important investment to the entrepreneur. However, despite the notions that entrepreneurs have less regard for education, the latest studies indicate that entrepreneurs have higher levels of education than non-entrepreneurs (Rwigema and Venter 2014, p.44).

#### **2.4.4 Work Experience**

According to Al-Dajani, Marlow (2013), prior experience before engaging in the entrepreneurial business is critical for the success of a business. Thus, “potential entrepreneurs must ensure that they can demonstrate business knowledge and work experience in their business interests to the extent they add their general qualifications with industry-specific experience to improve their ability to understand the business” (Rwigema and Venter, 2014, p.45). Al-Dajani, Marlow (2013) argue that successful entrepreneurs are those with a strong foundation on management skills and expertise over several years of practical experience.

#### **2.4.5 Entrepreneurial Competence and Commitment**

Rwigema and Venter (2014:45) identify the perceived entrepreneurial competence as one as self-efficacy that leads to confidence towards performing a series of activities based on previous work experience and accomplishments. Examples of such competency include the capability to identify opportunities and acquire resources for the business. Capability refers to one’s capacity to organise a set of resources towards performing key tasks (Rwigema and Venter, 2014, p.48).

#### **2.4.6 Entrepreneurial Behaviour**

Several key concepts are associated with entrepreneurial behaviour. These include self-efficacy. “Self-efficacy is an important construct in behavioural management and has been defined as people’s judgment of their capabilities to organise and execute courses of action required to attain designated types of performance” (Rwigema and Venter 2014, p.52).

This study draws largely from the human capital theory as a basis for entrepreneurial success. According to the theory, the success of entrepreneurs is a function of the human capital variables, which include knowledge further broken into education, work experience, entrepreneurial competence, entrepreneurial commitment, and entrepreneurial intelligence and behaviour. All these, according to Rwigema and Venture (2014, p.53), are the secret behind the success or failure of SMMEs as an entrepreneurial venture.

### **3. Research Methodology**

A descriptive, quantitative approach was employed to assess the impact of business empowerment workshops on the growth of SMMEs in radical economic transformation in a South African municipality to enhance access to the empowerment workshops which are being criticised for not bringing the much-needed benefits. A survey research strategy offered more control over the research process. The population comprised all the small to medium enterprises in the municipality, which is approximately 3500. A simple random sample technique was applicable as it gave each of the SMMEs an equal chance to be selected. The ethical considerations of participant anonymity and confidentiality and informed consent were adhered to.

### **4. Results**

A total of 118 out of 120 distributed questions were returned giving a response rate of 98.33%. According to Saunders, Lewis and Thornhill (2012, p.390), it is critical for a study to have a good response rate as this improves the validity of the study. A 98.33% response rate, therefore, meant an excellent rate.

#### **4.1 Presentation of Demographic Data Analysis (Section A)**

The majority (67%) of the participants were in the age range between 26 and 40 years followed by 20% who ranged from 41 to 50 years, while 10% were above 50 years. At least 2% of the participants were below 25 years, an indication that there were young people also involved in SMME businesses in the municipality.

Most of the participants were female with 65% as against 35% of the male participants. The results suggest that females are more engaged in entrepreneurship on a smaller scale.

Most participants were at a tertiary level of education with 55%, followed by 35% of the participants having a university level while 8% were at secondary level and only 2% did not indicate their level of education. The most important finding under this section is that the municipality’s SMME owners are

predominately educated with at least a secondary qualification, suggesting that it should be much easier for them to understand basic business principles and procedures.

#### **4.2 Findings from Objective One: To Assess the Impact Of Business Empowerment Workshops as a Tool to Grow SMMEs**

Data gathered on each of the questions is presented in the sections that follow.

*The empowerment workshops have opened funding opportunities for the business:* 66.9% agreed with this statement followed by 18% who disagreed and 15.1% who took a neutral position. Thus, the finding under this question suggests that empowerment workshops opened funding opportunities for the SMMEs within the municipal area.

*The empowerment workshops have improved my technical skills:* Participants agreed with this statement as reflected by a total of 60.2% who agreed while 24.5% gave a neutral response and 15.1% who disagreed. Thus, the finding under this question suggests that empowerment workshops improved SMMEs' owners' technical skills.

*The empowerment workshops have improved my business intelligence:* 67.9% agreed with this statement followed by 21.7% who gave a neutral response and 10.4% who disagreed. The finding thus suggests that SMMEs' owner-managers improved their business intelligence as a result of empowerment workshops.

*Empowerment workshops taught me how to prepare a business plan:* 67.8% agreed with this statement of which 44.3.0% strongly agreed. A total of 18.3% disagreed while 13.9% gave a neutral response. The finding suggests that the empowerment workshops were helpful to SMME owner-managers as they were taught how to prepare a business plan. SMME owner-managers ought to develop a solid business plan if they are to achieve success. Preparation of such a business plan could be a function of empowerment bodies or workshops or through formal training provided by skilled individuals in the area of business plans.

*Empowerment workshops have enhanced my understanding of business plan:* 66.9% agreed with this statement followed by 18% who disagreed and 15.1% taking a neutral position. The findings suggest that not only were SMMEs owner-managers taught how to prepare a business plan but also they now understood what the business plan entails. SMME owner-managers ought to effectively manage the financial resources of the enterprise. The best defence against financial problems is developing a practical information system and then using this information to make business decisions.

*The empowerment workshops taught me how to prepare a marketing plan:* 57.3% agreed with this statement that empowerment workshops taught them how to prepare a marketing plan followed by 25.2% who gave a neutral response while 17.5% disagreed with the statement.

*Empowerment workshops have enhanced my understanding of marketing plan:* 67.3% agreed that empowerment workshops enhanced their understanding of a marketing plan. This was followed by 17.3% who disagreed with the statement while 15.4% gave a neutral response. The finding under this question suggests that the SMME owner-managers not only gained the preparation part of the marketing plan from the empowerment workshops but rather they now understand what the marketing plan is in terms of its usefulness.

#### **4.3 Findings from Objectives Two: To Investigate the Challenges Facing Smmes in the Municipality**

A total of 59.4% agreed with the statement, 25.5% gave a neutral response, while 15.1% disagreed with the statement. Before lenders decide to lend to SMMEs, attention is given to the current growth of the SMME and if the firm's history portrays poor growth, the lender will not provide funding, citing poor growth rate.

*SMMEs do not have collateral security:* 60.3% agreed with the statement of which 43.3% strongly agreed. A total of 19.8% disagreed with the statement while 16.9% gave a neutral response. The finding suggests that SMMEs within the municipality lacked collateral security.

*SMMEs face serious competition:* 45.4% followed by 39.6% agreed with the statement and 15.0% took a neutral position. The keyword under this question is *serious*. Thus, while SMMEs, in general, may face funding challenges, in this study this was not viewed or perceived as serious. One of the major challenges facing SMMEs is incorrect pricing.

*SMMEs face the technology challenges:* 61% disagreed with the statement while 19.0% strongly disagreed. A total of 21.9% gave a neutral response while 16.2% disagreed with the statement. The finding under this question suggests that SMMEs with the municipality faced technology-related challenges.

*SMMEs face the challenge of inflation:* 66.9% agreed with the statement followed by 18% who disagreed with the statement and 15.1% who took a neutral position. The challenges in the macro environment of business are caused by forces inside or outside the enterprise and these include the economy, society,

technology, laws, regulation. For instance, competitive threats, threats to entry, the power of suppliers and consumers. This may mean new products, technologies, distribution channels, staff redeployment and cost containment. SMMEs ought to understand the tax levels and interest rates as well as inflation. These changes signal opportunities and threats. Mindful of the fact that the macro environment is difficult to control managers ought to plan for the future.

*Municipal by-laws hinder my business:* 61.5% disagreed with the statement followed by 22.1% who gave a neutral position and 16.3% who agreed with the statement.

*Crime levels affect my business:* 59.4% agreed with the statement while 25.5% were neutral and 15.1% disagreed.

#### **4.4 Findings from Objectives Three: To Determine the Relationship Between SMMEs Growth and Radical Economic Transformation**

The third objective sought to ascertain if there was a relationship between SMMEs' growth and radical economic transformation. Five questions were developed and incorporated into the questionnaire. Thus, data on the respective questions are analysed in the respective sections that follow.

*My business provides sustainable income because of the empowerment workshops provided:* 61.3% disagreed with the statement with 22.6% strongly disagreed. The finding under this question suggests that though empowerment workshops play a significant role, they had not yet reached the level of positively contributing to SMME sustainability. Maybe with time, this would be possible. SMMEs within the area play a significant role in sustaining the community, which translates into a positive transformation of the economy.

*My business sufficiently serves the surrounding community as a result of the empowerment workshops:* 62.6% of participants disagreed with the statement followed by 26.4% who agreed and 11.0% who gave a neutral position. The finding suggests that the empowerment workshops, while playing a significant role, have not done enough to influence SMME growth to the extent that the SMMEs can now sufficiently save the surrounding community. In this context, the SMMEs made choices from a poverty-stricken environment to the extent that making such choices would be considered a 'strategic life choice' that had a significant contribution to individual life, his/her family, and the community towards radical economic transformation of the economy.

*My business has grown over the past months as a result of the empowerment workshops:* 66.9% agreed with the statement followed by 18% who disagreed and 15.1% who took a neutral position. The finding under this section shows that SMMEs had significantly grown over the months as a result of empowerment workshops with such a growth benefiting the economy.

*My business employs additional employees over the years because of empowerment workshops:* 67.9% agreed with this statement followed by 21.7% who gave a neutral response and 10.4% who disagreed.

*It has become easier to start up a business venture as a result of empowerment workshops:* 54.8% disagreed with the statement followed by a total of 29.8% who agreed and 15.4% who took a neutral position.

### **5. Conclusions and Recommendations**

Although participants did confirm that the workshops provided by the municipality had contributed to their business success, several challenges emerged. Subsequently, a sustainable income was still beyond their reach. However, since attending these workshops participants confirmed that they were now able to understand a business plan. This will enable them to overcome the one challenge of financing of their businesses. Drawing from these conclusions, the study recommends the following:

- The organisers of the business empowerment workshops should establish a special purpose fund invested through an insurance institution towards resuscitating SMMEs that face growth-related challenges.
- The use of the proposed insurance fund to serve as collateral security.
- A systems approach to dealing with challenges. Thus, SMMEs are encouraged to work together as a system, through holding monthly meetings where they share technology-related matters, how they price their goods and services and how they should tackle by-laws as well as discussion on the state of crime in the respective areas. Working together, the SMMEs would be able to provide solutions for their challenges.

#### **5.1 Conclusions Aligned with Objective 1**

Drawing from the findings under objective one above, the study concludes that empowerment workshops:

- Have the potential to open business-funding opportunities for the business which could lead to business growth.
- Have the potential to enhance or sharpen the SMMEs' owner-managers' skills ultimately growing the business.
- Have the potential capacity to improve the SMMEs' owner-managers' business intelligence ability which may grow the business in the long run.
- Have the potential to educate SMMEs' owner-managers on how to prepare business plans as well as increasing their understanding of what business plans entail, why they are prepared and how best they can benefit the SMME.
- Have the potential to educate SMMEs' owner-managers on how to prepare marketing plans and develop the plans into meaningful use within the business.

### **5.2 Conclusions Aligned with Objective 2**

Drawing from the findings under objective two above, the study concludes that:

- Funding and collateral security were a critical requirement for SMMEs within the municipality, however, they remain as a serious challenge for the majority of SMMEs.
- Competition, while a healthy development in business, has the potential to destroy the fabric of the business and in this case, competition negatively affected the majority of SMMEs within the municipality.
- Technology, inflation, municipal by-laws and increasing levels of crime have the potential to disrupt the functionality of SMMEs within the municipality.

### **5.3 Conclusions Aligned with Objective 3**

Drawing from the findings under objective three above, the study concludes that SMMEs have potential:

- To provide sustainable income ultimately transforming the economy across all sectors of the municipality;
- To benefit the surrounding community by transforming the greater part of the municipality's economy;
- To grow ultimately and employ additional labour.

### **5.4 Scope for Further Research**

This study was conducted in a particular municipality and yet the province has various other municipalities that have thousands of SMMEs. It is recommended that a similar study be conducted in some of these municipalities to assess if the challenges faced by SMMEs validate the current study findings.

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