

# **An exploratory study of challenges faced by small automotive businesses in townships: the case of Garankuwa, South Africa**

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## **Abstract**

Small, Medium and Micro Enterprises (SMMEs) are seen as an engine for economic growth and development in South Africa (SA), contributing about 36% of the total Gross Domestic Product (GDP) to the South African economy. Despite this positive contribution, the failure rate of small businesses in SA is worrying and estimated to be between 70 and 80% across all sectors of the economy.

With this in mind, this article aims at identifying challenges facing SMMEs in the automotive sector within townships. Since this study is exploratory in nature, it was based on a qualitative approach. Eleven participants were selected to participate in this study, consisting of one manager from the Automotive Industry Development Centre (AIDC), one project manager and the centre manager from Seda Automotive Technology Centre (Satec), and also eight small businesses owners operating within the automotive industry in Garankuwa.

Findings revealed that lack of access to funding, poor management skills, lack of space and proper infrastructure together with a lack of government support are among the challenges that contribute to a high failure rate of automotive SMMEs in townships such as Garankuwa. Findings of this article will contribute to the body of knowledge and assist in the development of SMMEs in the automotive sector in Garankuwa and the rest of the South African townships. The article also provides recommendations on how these challenges can be addressed to assist SMMEs in the automotive industry.

## **Key phrases**

*Automotive industry; challenges; failure rate; Garankuwa and SMMEs*

JEL: L26; L62

## **1. INTRODUCTION**

South Africa has an exceedingly high unemployment rate of about 26.7% which highlights the need to support entrepreneurs and promote job creation (Statistics South Africa,

2016:1). This information is of utmost importance in rural areas as well as in the informal sector and townships as they are characterised as being underdeveloped and exhibit extreme levels of poverty (Malebana 2017:75). The revitalisation of township economies and of the informal sector appears to have gained traction in some policy circles at national, provincial and metropolitan levels in South Africa. While much research has been done on the informal sector over the past decades, there are still many knowledge gaps relating to the ways in which to support the informal sector and township economies in order to stimulate employment and income growth (Charman & Petersen 2015:1).

The importance of Small Medium and Micro Enterprises (SMMEs) in South Africa (SA) is reflected in the Government's growth agenda in the National Development Plan. In SA, the key priority of the Gauteng Government is revitalizing the township economy through local SMMEs within the province (Makhura 2015:1). To date, little research has been done on SMMEs within the automotive industry in South Africa, particularly in townships. One study that was done by Battle, Mbohwa, Mukhuba and Muyengwa (2013:244) was found, which focussed on the barriers to SMMEs development in the South African motor body repair sector while other researchers focussed on determinants for small business success across all sectors in general. Furthermore, Battle *et al.* (2013:244) and Keith, Unger, Rauch and Frese (2016:517-520) focussed on psychological factors such as education, experience and founding team composition. Other authors looked into variables such as industry structure, business strategy, resources, organisational structure, systems and processes (Herrington, Kelley, Kew, Kew, Vorderwulbecke & Xavier 2012:37; Kalyani & Kumar 2011:15).

Battle *et al.* (2013:244) identified three advantages enjoyed by SMMEs located in residential areas, such as "growth potential, cost advantage and personal convenience". Noticeable factors that support these advantages include closeness to market, and low running and advertising costs since the majority of them are family-based operating in the precinct of the captive market.

The Global Entrepreneurship Monitor (GEM) states that the Total early-stage Entrepreneurial Activity (TEA) is the population between the ages of 18-64 who are in the process of starting a business or who own and manage a new business which is less than 42 months old (Herrington, Kew & Mwangi 2017:21). In South Africa, the level of total early-stage entrepreneurial activity has dropped in 2015 from 9.2% to 6.9% in 2016 implying that the country's TEA rating shows a significant gap between South Africa and its African counterparts (Herrington *et al.* 2017:21).

The challenge of SMMEs' failure rate is not unique to small businesses in the automotive sector; they include all sectors of our economy. According to Cant and Wiid (2013:707), many SMMEs fail despite government and private initiatives that support and develop small enterprises. Government support includes support agencies like the Small Enterprise Development Agency (SEDA) who provides training for SMMEs and the Small Enterprise Finance Agency (SEFA) who attempts to close the financial gap faced by SMMEs (Malebana 2017:1). Thus, the Automotive Industry Development Centre (AIDC) was established with the purpose of supporting businesses within the automotive sector, particularly historically disadvantaged SMMEs. McGaffin, Napier and Karuri-Sebina, (2015:12) state that although a number of interventions have been put in place to address the challenges faced by township economies, they were not highly effective due to the lack of knowledge and understanding of a township economy, its functioning and requirements.

For the purpose of this study, a definition of the automotive industry by Hill, Menk and Cooper (2010:15) was adopted. They define the automotive industry as all business activities dedicated to the maintenance of automobiles, following delivery to the end-user, such as automobile repair shops, backyard mechanics and auto body repairers. Automobiles provide access to markets, to doctors, and to jobs for individuals to engage in different economic activities. Nearly every car trip ends with either an economic transaction or some other benefit to one's quality of life (Organisation for Economic Co-operation and Development (OECD) 2010:73).

It is against the foregoing background that the article investigates the challenges faced by SMMEs in the automotive industry within Garankuwa. Garankuwa is one of the townships identified as an automotive economic zone by the local government (City of Tshwane,) due to its existing automotive infrastructure within the city (City of Tshwane 2012:1).

The article provides recommendations on how these challenges can be addressed to assist SMMEs in the automotive industry. In this study, a challenge is referred to as a threat, an obstacle, a barrier, a shortcoming and/or a hindrance to any business success. This study prefers the term "challenge", but uses it interchangeably with "barriers" throughout the study depending on how different authors have reported their research in the literature.

## **1.1 Problem statement**

Despite much of the attention placed on SMMEs by the South African Government, not much has been achieved in terms of success in supporting this particular sector (automotive). This can be attributed to the lack of supportive infrastructure for start-ups,

weak start-up skills, human capital and the poor performance of the Small Business Development Ministry (Skae 2017:1). Township SMMEs in this sector are still facing challenges that hinder their growth potential and operational efficiency. At the root of this are issues such as lack of access to funding, lack of skills and tailor-made support packaged to benefit SMMEs operating in the automotive sector (Ayandibu & Houghton 2017:136; Mohammed & Nzelibe 2014:4). Garankuwa has been identified as an automotive economic zone with a ready infrastructure for the automotive sector and this should be a convenient platform to support.

## 1.2 Research questions

In order to achieve the objectives of this study, the following research questions were formulated:

- What are the challenges facing SMMEs in the automotive industry within townships?
- To what extent do these challenges impact on the automotive SMMEs in Garankuwa?
- Do SMMEs within the automotive industry in Garankuwa benefit from the government support available to them?

## 1.3 Research objectives

From the research questions, the following three research objectives were formulated to guide the study:

- To investigate the challenges facing SMMEs in the automotive industry in townships
- To determine the extent to which these challenges impact on the automotive SMMEs in Garankuwa
- To determine whether or not SMMEs in the automotive industry within Garankuwa do benefit from the government support available to them

## 1.4 Significance of the study

SMMEs in the automotive industry will benefit from this study because the challenges they face will be identified. Business growth can be experienced as a result of knowledge gained from this study. However, this can only be realised if the SMME sector is sustainable and provides long-term jobs to the local citizens.

Furthermore, the more successful businesses in the locality of Garankuwa can help reduce the travel expenses and other repair expenses of local inhabitants, thus business performance can improve. The findings of this study will assist policymakers, SMMEs

support institutions, and SMMEs themselves in finding long-lasting solutions to the challenges faced by automotive SMMEs in Garankuwa.

## **2. LITERATURE REVIEW**

### **2.1 The importance of the Automotive Industry**

South African government's target of a 6.0% economic growth rate, increased foreign direct investment, skills development and an increase in downstream benefited exports will largely depend on future successful performance in priority sectors such as the automotive industry (AIDC 2014:8). According to Manilal (2012:2), South Africa's aim is to become an automotive investment destination of choice. Unsurprisingly, the automotive industry is one of South Africa's most important economic drivers, exporting to over 180 foreign destinations, including Japan and the USA.

In countries like the United States (USA), the automotive industry contributes 11.5% to the GDP due to the industry's consumption of products from many other manufacturing sectors (Hill *et al.* 2010:10). Currently, according to AT Kearney (2014:3), in China and India, the automotive industry accounts for 7.0% of the GDP. In South Africa, it contributes about 7.5% to the country's GDP and employs around 36 000 people directly and more than 100 000 indirectly (AIDC 2014:8). In view of this importance, the SA government has identified the automotive industry as a key growth sector (AIDC 2014:8).

### **2.2 Government support to automotive SMMEs**

The Gauteng provincial government has put measures in place to support the automotive industry through the Automotive Industry Development Centre (AIDC). The aim of this initiative is to support the automotive industry with the intention to assist in the growth and development of the automotive SMMEs in the province (Gauteng Growth and Development Agency (GGDA 2014:28). In line with the provincial government's initiatives, the local government (City of Tshwane) has also committed to supporting the automotive industry in order to cultivate on its potential (Moseselane 2012:3). According to McGaffin *et al.* (2015:12), if understanding the township economy, its functioning and requirements are missing, attempts to support and nurture local township economic activities will not succeed.

The chosen area (Garankuwa) is located within the City of Tshwane (CoT) and the AIDC and Automotive Supplier Park (ASP) respectively are also based in the city. CoT is the administrative capital of South Africa and is the fastest growing municipality in the country, with its economy growing by an average annual growth rate of 4.4% between 2007 and

2014 (AIDC 2014:8; City of Tshwane 2012:1). In CoT alone, the automotive industry has a turnover of about R30 billion in current prices (Manilal 2012:2). It generates about a quarter of the manufacturing sector's value added tax and contributes about 3.3% to the city's economy (Moseselane 2012:1). In his report, Moseselane (2012:3) further emphasised the city's commitment to support the automotive sector as reflected by its participation in the establishment of the ASP and the AIDC in Roslyn.

The ASP is a manufacturing cluster based in the northern perimeters of Pretoria (Rosslyn). ASP was developed to create a beneficial environment for automotive component suppliers by providing infrastructure, logistics and services (GGDA 2014:28). It is an international benchmark project that has contributed significantly to the global competitiveness of the South African automotive industry (Moseselane 2012:4). Furthermore, the AIDC was established to increase the level of global competitiveness of the South African automotive industry whilst developing the Gauteng Province as an automotive industry investment destination of choice (GGDA 2014:28). Despite such support available, the failure rate of SMMEs remains high at 70-80% (Mazanai & Fatoki 2012:40; Fatoki 2014:748). Consequently, the next section reviews the literature on the barriers to SMME development.

### **2.3 Barriers to SMME development**

For one to understand the challenges that township entrepreneurs are facing, it is important to look at the challenges faced in townships generally, as well as their history. South Africa's townships are relics of the country's apartheid regime (SME South Africa 2017:1). The impact of past neglect, lack of investment, overpopulation and isolation from urban centres is still largely evident today. Most notably with the lack of resources and infrastructure, as well as high unemployment levels (Kasi Lifestyle 2017:1).

Different researchers have identified a number of barriers to SMME development. These barriers, which are summarised in Table 1 below, are some of the reasons why many SMMEs fail in South Africa.

**TABLE 1: Barriers to SMME development**

Lack of managerial skills	Kambwale, Chisoro & Karodia (2015:99), Lekhanya (2015:414)
Lack of access to new technologies	Thomas (2014:2)
The high rate of illiteracy	Chiloane-Tsoka (2013:184)
Management or leadership mistakes	Kalane (2015:45)
Poor financial management	Jindrichovska (2013:82)
Lack of proper business training in management	Seeletse (2012:11000), Cant (2017:110), Ramukumba (2014:24)
Lack of business skills	Ntshona (2012:1), Skae (2017:1)
Not keeping proper financial records in the business	Mungal & Garbharran (2014:81)
Lack of access to funding	Mazanai & Fatoki (2012:58), Finmark Trust (2015:5), Fatoki (2014:748), Rector, Fatoki & Oni (2016:68), Quartey, Turkson, Abor & Iddrisu (2017:18)
Lack of land, space and basic infrastructure	Cant (2017:110), Nkwini & Munzhedzi (2016:77), McGaffin, Napier & Karuri-Sebina (2015:17)
About 90% fail from lack of experience and competence	Agwu & Emeti (2014:104), Mamman, Bawole, Agbebi & Alhassan (2018:7)
Lack of entrepreneurial skills	Phelan & Sharpley (2012:1)
Unfavourable regulatory environment	Ladzani, Nieuwenhuizen, & Nhlapo (2011:1466,; Agwa-Ejon & Mbohwa (2015:523)
Failure to use or lack of access to business support systems	Van Aardt, Hewitt, Bendeman, Bezuidenhout, Janse Van Rensburg, Naidoo, Van Aardt, Van Der Bank & Visser. (2011:104)

Source: Authors' compilation

For the purpose of this study, the barriers above have been classified into six categories in Table 1 namely; skills challenges, access to funding, lack of proper business development services, lack of access to the latest appropriate technology, compliance problems and lack

of infrastructure. The six categories have been chosen as they are repeatedly identified by researchers throughout several literature sources on the reasons why SMME development is hampered (Kambwale, Chisoro & Karodia, 2015:99), (Finmark Trust 2015:5), (Seeletse 2012:11000), (Cant 2017:110), (Thomas 2014:2), (McGaffin, Napier & Karuri-Sebina 2015:17).

### **2.3.1 Skills challenges**

In today's competitive environment, entrepreneurs need a different set of skills in order to survive and manage the enterprise. According to Mamabolo, Kerrin and Kele (2017:25), a simple definition refers to skill as the ability to perform a task. However, the three authors go on to say "*in the entrepreneurial domain, defining and specifying skills is ambiguous and complex*".

Though ambiguous and complex, Mamabolo *et al.* (2017:3) define entrepreneurial skill as the proficiency in performing tasks in the entrepreneurial phases as a result of human capital investments (formal and education, entrepreneurial education, work, industry and entrepreneurship experiences) and can be improved by training, practice and development.

Fatoki and Garwe (2010:131) and van Scheers (2016:349) identified lack of basic management skills such as business planning as one of the reasons why small businesses fail, while Lekhanya (2015:414) highlighted lack of entrepreneurship education as a major reason for SMME failure in South Africa. Mohammed and Nzelibe (2014:4) further allude to the fact that having a well-versed and good business managerial skill is vital to any individual to run and successfully manage a business.

### **2.3.2 Access to funding**

Based on research from FinTrust, SMMEs' lack of finance is one of the major reasons for business failure and business growth (Makina, Fanta, Mutsonziwa, Khumalo & Maposa, 2015:5). According to Mohammed and Nzelibe (2014:4), the problem with funding SMMEs is not so much the sources of funds, but the accessibility. Factors identified as inhibiting funds accessibility by the SMMEs are the stringent conditions such as business plan, financial history, and collateral which is a requirement set by financial institutions (Osamwomyi & Tafamel 2010:196; Ndege & Van der Bijl Park, 2015:89). Cant and Wiid (2013:712) further highlighted the fact that the majority of SMMEs require funding from financial institutions and therefore interest rates is a key challenge to SMMEs' sustainability. Herrington and Christensen (2013:3), articulate their view that lack of micro-finance institutions, venture capitalist and business angels in developing countries compounded the problem of financial

support for entrepreneurs. In developing countries, sources of finance for entrepreneurs were historically limited to commercial banks (Quartey *et al.* 2017:18).

According to Turton and Herrington (2012:45) and Rector, Fatoki and Oni (2016:68), banks in South Africa are conservative when it comes to extending credit to young entrepreneurs. They further explain that banks have stringent lending criteria such as business trading records and credit history that borrowers must meet and most often young entrepreneurs were unable to meet these strict requirements. Turton and Herrington (2012:71) pointed out that even when entrepreneurs met the qualifying criteria for credit, finance was advanced at high costs.

### **2.3.3 Business development services**

The Department of Trade and Industry (DTI) (2013:35) announced that it is spreading its presence countrywide through branch offices and a network of independent partners, with a view to increasing access to business development services such as mentorship, technology transfer programmes, co-operative incentive schemes (CIS) and incubation facilities.

Mbonyane and Ladzani (2011:9) as well as Lekhanya (2015:417) state that government does not have enough mechanisms in place to support small businesses and train small business owners how to effectively run a business. This was further emphasised by Van Aardt *et al.* (2011:104) who cited failure to use or lack of access to business support systems by new business owners as one of the reasons business start-ups failure in South Africa is high. Moos (2014:214) identified business mentors and business incubators as some of the business support services that could help entrepreneurs establish and operate successful and sustainable businesses.

Therefore, Raiz (2014:1) maintained that the focus should be on entrepreneurial skills development as opposed to access to finance. However, experts in entrepreneurship highlighted that government intervention programmes were ineffective due to problems of poor management, lack of monitoring, and poor implementation amongst other things (Herrington *et al.* 2011:31; Maina 2012:29; Turton & Herrington 2012:8). Another factor that makes intervention programmes ineffective is that they are not adequately marketed and as such many young aspirant entrepreneurs remain unaware of their existence (Herrington, *et al.* 2011:24). A recent study conducted in Khayelitsha, Cape Town, by Gwija, Eresia-Eke & Iwu (2014:16) found that entrepreneurs were not aware of the government initiatives aimed at supporting their businesses. These findings are not much different from the findings back in 2010 and 2011 when Timm (2011:21) reported similar findings in Gauteng. Just 13.5% of

entrepreneurs had heard of SEDA and 1.3% had accessed the agency. In the Western Cape awareness of SEDA stood at just 10%, with 0.5% having visited a SEDA branch there. Added to this in the FinScope 2010 South Africa Small Business Survey only 3% of entrepreneurs reported that they had heard of Khula (currently known as SEFA), while 10% said they had heard of National Youth Development Agency (NYDA) and 4% said they had heard of SEDA. Only one percent of small businesses reported that they had visited SEDA or NYDA branches.

#### **2.3.4 Access to the latest appropriate technology**

Using the latest appropriate technology is one of the most important factors behind a successful SMME's competitive advantage (Mahembe 2011:51; Rankhumise 2017:61). The growth and expansion of small businesses is limited by the lack of technology or expertise to research and develop new business ideas. SMMEs have limited access to technology development partly because they lack the relevant information and continue to hold onto poor and obsolete technologies (Chipangura & Kaseke 2012:51). The two authors continue to say that the industrial support institutions are weak and fail to focus on the actual requirements of the SMME sector. Risk and uncertainty involved in acquiring technology may result in underinvestment by SMMEs. According to Phangwana (2014:1), most SMMEs are not up to date with their technology, nor are they aware that they can access appropriate technology through the use of the services provided by the National Research Foundation and the South African Bureau of Standards.

#### **2.3.5 Unfavourable regulatory environment**

A burdensome regulatory environment has been found to reduce the rate of entrepreneurial activity (OECD 2017:42). According to Herrington *et al.* (2012:44), restrictive labour regulations is ranked as the second most problematic factor for doing business in South Africa after inadequately educated workforce. South Africa has several regulations that undermine entrepreneurship by hindering access to critical resources such as talent and capital which create an unstable and unpredictable business environment, and erode the rewards of success (Simodisa 2015:14). According to Shane (2014:1), compliance with governmental rules and laws is a greater encumbrance on small companies than large ones, and regulation hinders small business formation, growth, and job creation. The high start-up costs for firms, including licensing and registration requirements, can impose excessive and unnecessary burdens on SMMEs (Abor & Quartey 2010:224; Kamara 2017:22).

### **2.3.6 Lack of infrastructure**

The Infrastructure Dialogues of South Africa, a platform that discusses the infrastructure sector of the region, found that South Africa's township economy has been failing to prosper because of the lack of infrastructure, ease of access to products, and lack of skills (Mzileni 2017:1). According to McGaffin *et al.* (2015:18), the role of infrastructure in growth is substantial, significant and frequently greater than that of investment in other forms of capital. Access to infrastructure provision promotes human development, and betters quality of life through improved productivity and sustainable economic growth (Kodongo & Oja 2016:105).

## **3. RESEARCH METHODOLOGY**

This study followed a qualitative approach because the article was intended to provide an in-depth understanding and insight into the challenges facing SMMEs. The study had two phases with the first phase collecting secondary data (literature) and the primary data collection phase. Literature review looked into the global context of the automotive industry, provincial and local SMME support as well as the failure rate of SMMEs were covered in this article. It further looked into the barriers to SMME development covering skills challenges, access to funding, business development services, access to the latest appropriate technology, unfavourable regulatory environment and lack of infrastructure.

### **3.1 Population profile**

The target population in this study included small business owners who operate in the automotive industry within Garankuwa township and support organisations referred to in this study as verifiers. Verifiers have been included because they are designated managers for the support institutions to SMMEs in the area. Garankuwa is a township situated 35 kilometres to the north of Pretoria within the City of Tshwane metropolitan municipality and was proclaimed a township in 1965 and formed part of the former Tswana homeland, Bophuthatswana. Its main function was to provide labour to the border industry area of Rosslyn, 10km away (City of Tshwane 2013:12). The township was chosen for easy access of the researcher, cost implications and the fact that Garankuwa has been earmarked as the automotive economic hub in the province due to its existing infrastructure. With a population of 90 000 people and the notion that 10 percent of the population is involved in entrepreneurship. It is estimated that 9000 are involved and a further 900 figure may be relatively linked to the automotive industry.

### 3.2 Sampling

A purposive sampling method was selected for this study. It was selected because of its ability to gain from the respondents their unique characteristics or their experience, attitudes, or perceptions. Malterud, Siersma and Guassora (2016:1756) alluded to the fact that it is not necessary to work with a large sample in qualitative research. This was further supported by Baker and Edwards (2012:8) indicating that a small number of interviews may still be enough. Therefore, eleven (11) participants were selected to participate in this study, which included one (1) Automotive Industry Development Centre (AIDC) manager, one (1) Seda Automotive Technology Centre (Satec) project manager, its centre manager and eight (8) SMME owners.

The AIDC manager was selected because his organisation is playing an active role in supporting SMMEs in the automotive industry through the mandate of the Gauteng provincial government, while Satec is a business incubator for the automotive sector and is located in Garankuwa. They are at the forefront of implementing the incubation programmes for SMMEs within its locality. SMME owners were selected on the criteria that they must own a small business in the automotive industry within Garankuwa township. AIDC and SATEC officials were referred to in this study as verifiers.

### 3.3 Data collection and analysis

Prior to data collection, the respondents were introduced to fill in the informed consent and once that was done the interviews continued and a tape recorder was used to ensure accurate capturing of the responses during transcription.

A semi-structured interview was conducted, comprising two sections, namely, Section A which covered demographics and business information, while Section B consisted of open-ended questions that address the issues raised in the research questions. As the research was aimed at answering the research questions, structured questions followed the sequence of the research questions for ease of reporting.

Furthermore, data was collected face to face by the primary researcher. This was done through visiting the premises of the interviewees and appointments were made in advance. Data analysis started informally during the interviews and continued during transcription. Interviews were transcribed and saved in rich text format to allow for analysis using Atlas.TI 2018. Data collected was arranged through content analysis and the themes are discussed in the findings.

## 4. FINDINGS AND DISCUSSIONS

Three responses from the SMME owners were translated from their native language to English by the transcriber and verified by the interviewer. SMME owners are referred to as the interviewees while AIDC and Satec officials are referred to as verifiers in this study.

### 4.1 Demographics of the sample interviewed and interview questions

The SMMEs ranged from auto body repairers (2) to motor mechanics (4) and auto electricians (2) operating in Garankuwa. Interestingly, all the interviewees were males and the only female interviewee was from the verifier's group and is a project manager at Satec.

Out of the eight SMME owners interviewed only one was a non-South African from Zimbabwe. All eight SMMEs included in the study were black-owner managed. One motor mechanic was an informal, unregistered business and the rest were formal, registered businesses, where three operated as a close corporation (CC) and four as private companies Pty (Ltd). Six of the SMME owners indicated they have a matric certificate, while one had grade 11 and another one completed a primary school education. This finding on the level of education is consistent with the earlier claim in the literature by Herrington *et al.* (2010:31) and more recently by Dlodla (2014:1) that the majority of small business owners possess a grade 12 or lower qualification as none of them had a higher qualification. The lack of entrepreneurial skills was further highlighted by Mamman *et al.* (2018:7) who mentioned that entrepreneurs lack professional and technical skills which are critical to business success.

### 4.2 Findings from SMME owners

#### 4.2.1 SMME challenges

The first research question asked was "*Describe the challenges you and fellow small businesses face in the automotive industry.*" The most common answer was the lack of equipment and funding to acquire the required equipment. All eight interviewees (100%) cited lack of funding as one of the business challenges they face, while six interviewees (75%) added lack of equipment as another challenge.

Mohammed and Nzelibe (2014:4) noted in the literature that the problem with funding SMMEs is not so much the sources of funds, but the accessibility. Price dropping by clients was another issue that interviewees highlighted with six (75%) of the interviewees citing this as another challenge. Price dropping according to the interviewees is a situation where clients propose a lower price to suit their pocket at the expense of the service provider.

In response to the issue of price dropping one auto body repairer said, *“Clients take advantage since I am doing my business in the township and are willing to pay five times more somewhere else than what they are willing to pay us here, with us they always need discount, but those who come from the city and other parts of town tend to pay without reducing the price because they do quotations on the way and then find my prices reasonable and affordable.”*

This statement gives an indication of the pricing challenge by interviewees as they accept prices set by customers, a practice which affects their turnover. Business skills (particularly marketing) can help improve SMMEs’ pricing strategies. Other responses included lack of proper infrastructure like buildings (3), the use of rental space (2), and people bringing cars and then disappearing without paying (3). Mzileni (2017:1) reported in the literature that the Infrastructure Dialogues of South Africa found South African township economy to be failing to prosper because of the lack of infrastructure.

Interviewees were then asked to *identify the specific challenges their own businesses are facing*. All interviewees cited the lack of special tools to diagnose car problems for the mechanic and auto electrician. One mechanic with 18 years’ experience responded: *“I do not have a diagnostic machine and it is very difficult to do it manually, but a diagnostic machine saves time. Not having a diagnostic machine is a challenge because I sometimes charge the amount of visible faults, and later on as I proceed I discover more faults, and I then have to increase the price which upsets the clients.”*

This finding supports the statement by Chipangura and Kaseke (2012:51) that growth and expansion of small businesses are limited by the lack of technology or expertise to research and develop new business ideas. Another auto body repairer cited lack of stable and motivated workforce and responded: *“My employees are not passionate about their work and all they need is money. Their attendance is very poor and it limits the customers, for instance; it is a challenge because we always get more cars when my employees are absent. At times I have to turn away customers, which is why I am closed now. My employees want to be paid per job instead of a week or fortnight.”*

This statement could be linked to poor planning. Fatoki and Garwe (2010:731) and Ramukumba (2014:24) identified lack of basic management skills such as business planning as one of the reasons why small businesses fail. Seeletse (2012:11000) added to this and identified the same lack of business management training as the reasons why SMMEs fail. Therefore, this interviewee’s response is consistent with Fatoki and Garwe (2010:131), Ramukumba (2014:24) together with Seeletse (2012:11000) in terms of managerial skills.

Furthermore, interviewees were asked to *prioritise the challenges* in order to fully understand and confirm the seriousness of these challenges. All interviewees (100%) prioritised funding to buy special tools such as vehicle lift hoists, hydraulic pushing/pulling devices for panel beaters, diagnostic machines for the mechanics and auto electricians (70%).

SMMEs that operate in the automotive hub under incubation (3) highlighted the fact that they have access to some of the special tools and machines, but they all belong to Satec and these tools/machines are not always accessible as they can only be used from 08:00 to 17:00; and not after hours. The incubator (Satec) is a government premise and subscribe to the business hours of 08:00-17:00 as a standard South African practice.

In an opposing view, verifier 2 (centre manager) from Satec was interviewed and had the following to say: *“When we open at 08:00 very few of them would be around; most of them arrive at 10:00 or 11:00. The reason for that is that sometimes they have to drive around to buy spares and that takes a lot of time. When starting at that time they are not able to finish the work as we have to close at 17:00. That is the main challenge that they have.”*

Fatoki and Garwe (2010:731) and Ramukumba (2014:24) attribute the failure rate of SMMEs to the lack of managerial capabilities such as a lack of business planning. Planning is the fundamentals of good management and once a business fails at this initial stage it becomes difficult to get things going without a plan. The argument of the above-mentioned scholars is in line with the centre manager’s viewpoint as he further explained that the people at Ford and Toyota are able to complete jobs between 08:00 and 17:00.

#### **4.2.2 Impact of these challenges on the automotive SMMEs**

The second research objective determined the impact of these challenges and interviewees were asked how these challenges affect their businesses. Five interviewees (62.5%) stated that these challenges limit their potential to grow. One interviewee responded as follows: *“It affects my prospects of growth as I believe I have good initiatives but they are not realised because of issues of funding. At times I go around for resources, sometimes I borrow from my competitors, sometimes when we have more work, and find our machines not working properly; then I ask my fellow competitors to assist and sometimes it is difficult.”*

This finding confirms the earlier study by Mohammed and Nzelibe (2014:4) that accessibility to funding remains a problem despite the growing number of funders in the SMME sector. The latest appropriate technology can be acquired only when there is funding available. Three interviewees (37.5%) who operate in the incubation hub indicated that they lose

customers because they cannot access the tools after hours and alluded to the fact that there is more work after hours given the number of breakdowns people have after work.

One interviewee (a motor mechanic) explained how he lost a South African Police Service (SAPS) tender to service their cars, and sometimes lost clients to competitors because customers become impatient if they cannot complete the job on time. The interviewee indicated that SAPS needed evidence of capacity in terms of physical and human resources and he could not convince them with what he has.

While on the impact, interviewees were asked how they deal with the challenges, and therefore, four of the interviewees (50%) indicated that they demand a deposit from their clients. However, two (25%) reiterated that not all clients pay and due to the relationship they have with local inhabitants, they end up not succeeding as it becomes difficult to turn away a friend, relative or a neighbour. The other two (25 %) did not appear to have a way of dealing with this problem as they said they tackle the situation as and when it happens.

#### **4.2.3 Skills possessed**

Seven interviewees (87.5%) indicated they gained technical skills in their previous work experience. In addition to that those who have been absorbed by the AIDC are further trained by the Automobile Association (AA) in the use of the latest technology within their field of expertise. However, the same cannot be said with managerial and business skills as there is little evidence of SMME owners being trained in managerial competencies. As noted earlier, Mohammed and Nzelibhe (2014:4) alluded to the fact that lack of trained manpower and management skills constitutes major challenges to the survival of SMMEs.

With regard to business skills interviewees indicated that they have not attended any formal business related training. However, six (75%) indicated that they received technical training through AIDC and the other two (25%) from their previous jobs. This probably confirms the view by Herrington *et al.* (2010:31) and Hughes and Schachtebeck (2017:262) that lack of entrepreneurship education is a major reason for SMME failure in South Africa. Therefore, the government can play a major role when it comes to entrepreneurship education and skills development in this sector.

#### **4.2.4 Government support for automotive SMMEs**

For research objective three, interviewees were further asked if they feel government support aimed at automotive SMMEs benefit them. This question referred to business development services such as funding, mentorship and training. In this case, three interviewees (37.5%) responded "yes" (but only to a certain extent) while the other five

(62.5%) felt they are not benefiting at all. Those who responded “yes” were also not fully satisfied with the support as they feel government can do even more to address the issue of funding. Important to note is the fact that those who responded “yes” were under incubation at Satec premises. According to Mazanai and Fatoki (2012:40), business development services should be directed towards assisting SMMEs to secure finance and that of improving their educational levels.

### 4.3 Verifiers’ responses

The researcher interviewed AIDC and Satec officials as they work with a number of automotive SMMEs in Garankuwa and surrounding areas and were termed verifiers. A project manager for SMMEs’ skills development was interviewed at the AIDC premises in the Automotive Supplier Park, and a centre manager and project manager of Satec were interviewed on their premises at the Garankuwa incubation hub.

Verifier 1 is a project manager of SMME skills development and training at AIDC and had this to say: *“They run their business in an informal way, there is no proper recording and proper banking and whatever they get is hand to mouth. Furthermore, the situation in our townships is different as panel beating remains a monopoly and structured; these SMMEs do not secure jobs with insurance companies. With motor mechanics, the only cars they can service are cars that are out of service plan as that is the only market.”*

Verifier 1 was asked about the support available to SMMEs and indicated that they intend to offer them computer training. *“We have identified lack of skills like searching for information as a major challenge. We have identified gaps, especially the technical part, where they need to beef up their skills, hence we try to offer them technical training to address the case. We recently entered into a partnership with Unisa for support with business training. This will address things like basic accounting and business skills so that all things that hinder their progress are addressed through training.”*

However, verifier 1 agreed with SMME owners that lack of equipment, proper infrastructure and funding are hindering the growth of SMMEs in the automotive industry. The second verifier (identified as verifier 2) was a centre manager at Satec. He highlighted the issue of time management, saying the SMME owners waste time by driving around to look for parts. He explained how he arranged for parts to be delivered on site, but the SMMEs do not make use of the facility citing financial accountability and lack of transparency as they may be required to pay tax.

This finding supports Shane (2014:1) that compliance with governmental rules and laws is a greater encumbrance on small companies than large ones, and regulation hinders small business formation, growth, and job creation. In light of verifier 2's statement, Abor and Quartey (2010:224) and Lewis and Gasealahwe (2017:12) seem to be correct in saying that licensing, registration and tax requirements can impose excessive and unnecessary burdens on SMMEs. Verifier 2 further labelled SMME owners price takers, which goes back to the issue mentioned by the interviewees (SMME owners themselves) that clients try to drop their prices by negotiating for a cheaper rate.

The third verifier (identified as verifier 3) was a project manager at Satec. Verifier 3 highlighted the fact that it is difficult for SMME owners to attract profitable clients since they do not have proper and safe workshops. When asked to explain other challenges she was quick to point out at funding, thus concurring with the earlier claims by SMME owners that funding is a challenge and could solve the challenges above. She (verifier 3) further explained that the biggest challenge for SMMEs to obtain funding is the stringent criteria as most of the SMMEs do not qualify because of the way they operate (informality). This finding is consistent with Osamwonyi & Tafamel's (2010:196) and Ramukumba (2014:24) who reported in the literature that stringent conditions such as business plan, financial history, and collateral which is a requirement set by financial institutions are inhibiting to the accessibility of funding.

In her words, Verifier 3 said: *"Proper equipment is also needed, they don't have proper business management skills, and they work from hand to mouth. They can get all the equipment that is needed but if they don't know how to manage their business, they won't make a profit. We have taken them to training but they come back being the same. They don't like to be put in a classroom; they think they are losing money by sitting in the class."*

This is consistent with the statement made by verifier 1 as citing lack of business management skills, working from hand to mouth and suggesting that the training is not yielding positive results. Furthermore, the findings are consistent with those of Fatoki and Garwe (2010:731) and Mohammed and Nzelibé (2014:4) as noted earlier in the study.

## 5. LIMITATIONS OF THE STUDY

No study is without limitations. Firstly, this study was limited to a township area, with its primary data collected in Garankuwa only. Therefore, the results of this study cannot be generalised to other township areas in the city. In future studies, primary data should be broadened to allow for comparisons between the challenges experienced by SMMEs in

other townships to better understand the influence of location on business growth and sustainability. The understanding of townships challenges may inform policy decisions regarding tailor-made SMME support. Secondly, the sample size was limited to eleven participants due to the chosen data collection method. Their views may not fully represent SMMEs that did not participate in this study.

## **6. RECOMMENDATIONS TO ADDRESS CHALLENGES FACED BY SMMEs IN THE AUTOMOTIVE INDUSTRY**

In Table 2 a summary is provided of the research objectives, the research findings in terms of the challenges facing SMMEs and the link to the literature review. From this summary, the recommendations to address the challenges faced by SMMEs in the automotive industry are compiled.

**TABLE 2: Summary of the research study**

<b>Research objective</b> To investigate the <b>challenges</b> facing SMMEs in the automotive industry in townships.		
<b>Research findings: SMME challenges</b>	<b>Link to literature</b>	<b>Recommendations to address challenges</b>
<b><u>SMMEs' responses:</u></b> Lack of equipment		
Lack of funding to acquire equipment	Mazanai and Fatoki (2012:58) (Makina, Fanta, Mutsonziwa, Khumalo & Maposa, 2015)	Financial assistance programmes should be offered as a package that includes business skills training, mentorship, counselling, etc. This would not only ensure that entrepreneurs get the finance they need to start and grow their business but would ensure that they also develop the necessary skills and knowledge that would enable them to run successful businesses.
Price dropping by clients	Ramukumba, (2014:24), Mzileni (2017:1), Ntshona (2012:1)	
Lack of business skills		
Lack of proper infrastructure	Chipangura and Kaseke (2012:51), Rankhumise (2017:61)	
Lack of special tools		
Lack of technology	Mamman <i>et al.</i> (2018:7)	More attention should be paid to the small business sector to promote the adoption of new technology by SMMEs and help reduce the barrier of cost.
Lack of entrepreneurial skills	Hughes and Schachtebeck (2017:262); Lekhanya (2015:414); Ntshona (2012:1), Chipangura & Kaseke (2012:51)	Training, training, training. More training on creativity and business growth can help improve SMME owners' skills on entrepreneurial matters.
<b><u>Verifiers' responses:</u></b> Lack of banking, recording, accounting skills	Phelan & Sharpley (2012:1) Ramukumba, (2014:24), Mungal & Garbharran (2014:81)	
Lack of equipment		

Lack of proper infrastructure		
Lack of funding	Skae (2017:1), Turton and Herrington (2012:45; Mazanai & Fatoki (2012:58)	The government should introduce programs aimed at raising awareness on funding agencies and their criteria. This study also proposes workshops aimed at preparing SMMEs for funding applications.
Legislative and regulatory conditions	Cant, (2017:110), Turton & Herrington (2012:45; Mazanai and Fatoki (2012:58), Lewis and Gasealahwe (2017:12), Ladzani <i>et al.</i> (2011:1466); Agwa-Ejon and Mbohwa, 2015:523)	Research should inform policy decisions regarding SMMEs in the country. Most researches are kept in libraries and policy makers should take advantage these intellectual resources from academic and professional space.
<b>Research objective</b> To determine the extent to which these challenges impact on the automotive SMMEs in Garankuwa.		
<b>SMMEs' responses:</b> Limited business growth due to lack of access to funding	Turton and Herrington (2012:45); Chipangura and Kaseke (2012:51); Rector, Fatoki and Oni (2016:68)	Local government should take responsibility to assist SMMEs in the automotive industry with equipment and special tools; although government cannot buy them those tools, it can make them available to SMMEs that comply with the municipal regulations.
Lack of latest appropriate technology	Thomas (2014:2) Chipangura and Kaseke (2012:51), Rogerson (2008:72)	Increase technology investment in small businesses.
<b>Verifiers' responses:</b> Skills challenge	Phelan & Sharpley (2012:1), Fatoki and Garwe (2010:131)	Funding should be offered as a package to include business skills training, mentoring and counselling to minimise the chances of failure.
<b>Research objective</b> To determine whether or not SMMEs in the automotive industry within Garankuwa do benefit from the government support available to them.		
<b>SMMEs' responses:</b> 62.5% of the SMMEs benefitted from the available government support while 37.5% did not benefit	Moseselane (2012)	SMMEs in this sector should speak in one voice. The establishment of a small business forum advocating for the automotive sector will ensure that the support is well packaged to suit the industry's small businesses.

Source: Authors' compilation

## 7. CONCLUSION

There is no doubt that most people have a common understanding that the success of small business is linked to the prosperity of the economy of the country. This study was aimed at investigating the challenges faced by small automotive businesses in townships with specific reference to Garankuwa in Tshwane. The research was exploratory in nature and as such, three objectives were formulated: i) to investigate the challenges facing SMMEs in the automotive industry in townships, ii) to determine the extent to which these challenges impact on the automotive SMMEs in Garankuwa; and iii) to determine whether or not SMMEs in the automotive industry within Garankuwa do benefit from the government support available to them.

Based on the literature reviewed and the findings of the study, in order to achieve the first objective, the study found that lack of access to funding, poor skills, lack of space and proper infrastructure, lack of government support and poor financial management are significant reasons why SMMEs fail in the automotive industry. In order to achieve objective two, the question: "to what extent do these challenges impact on the automotive SMMEs in Garankuwa?" The finding linked to this objective was that these challenges limit their potential to grow. With regard to the third objective, the majority of interviewees still were not able to access government support. Important to note is that these SMMEs have dissimilar characteristics and therefore need different programmes to respond to their individual circumstances and needs. Although recommendations have been made, the implementation rest with all the SMMEs, stakeholders and the local and provincial authorities where they operate.

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