

# “Challenges faced by small automotive businesses in Tshwane: the case study of back yard mechanics in Soshanguve, South Africa”

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## Challenges faced by small automotive businesses in Tshwane: the case study of backyard mechanics in Soshanguve, South Africa

### Abstract

This paper contributes to the challenges faced by automotive small business enterprises operating as backyard mechanics in Soshanguve within the city of Tshwane. Small business enterprise is seen as an engine for economic growth and development in South Africa. They serve as a catalyst of job creation and alleviation of poverty in developing countries. SMMEs contribute 7% of the total GDP in South Africa. Even in emerging economies like Brazil, Russia, India, China and South Africa (BRICS), SMMEs have been identified as a potential sector for economies of scale to create employment opportunities. The paper seeks to provide the challenges experienced by small automotive businesses in Tshwane. The objective of this paper is to identify challenges that lead to the high failure rate of SMMEs in the automotive sector within Tshwane. The paper used a qualitative approach. A total of 14 respondents were interviewed using a semi-structured questionnaire. Findings revealed that lack of funding, space, proper equipment's informality, working from hand to mouth are among the challenges that backyard mechanics are facing in Soshanguve.

**Keywords:** SMMEs challenges, automotive industry, Soshanguve small business failure rate and total early-stage entrepreneurial activity (TEA).

**JEL Classification:** L26, M45.

### Introduction

There is a general consensus among policy makers, economists, and business experts that small and medium enterprises (SMMEs) are drivers of economic growth. Their dynamic role insures them as engines through which the growth objectives of developing countries can be achieved (Mahembe, 2011). To date, little research has been done on the challenges of SMMEs in the automotive industry in South Africa, particularly in townships. The only study found was done by Muyengwa, Mukhuba, Battle & Mbohwa (2013), which focussed on the barriers of SMMEs operating in the South African motor body repair sector. Other researchers have focussed on determinants for small business success across all sectors in general (Muyengwa, Makhuba, Battle & Mbohwa, 2013). Bosman, Van Praag and De Witt (2000) highlighted human capital, financial capital, social capital and keeping up with developments relevant to the business. Furthermore, Muyengwa et al. (2013) and Jansen and Young (2006) focussed on psychological factors such as education, experience and founding team composition of SMMEs in general.

In a study conducted by Xavier, Kelley, Kew, Herrington, Kew and Vorderwulbecke (2012) in a Global Entrepreneurship Monitor report (GEM), the total-early-stage entrepreneurial activity (TEA) rate in South Africa was 7% in 2012 as compared to the 13% of 2010. The TEA rate further dropped to 6.6% in 2013 (Amoros & Bosma, 2013). Amoros & Bosma (2013) attribute the decline to the increasing

availability of job opportunities as economies progress and develop institutions accordingly. In contrary, Xavier et al. (2012) believe this is the return to normality after the success of the 2010 FIFA world cup in South Africa, while Herrington, Kew and Kew (2010) attribute the decrease as an indication of poor entrepreneurial performance in South Africa despite efforts by national, provincial and local government to support small businesses.

For the purpose of this study, a definition of automotive by Hill, Menk and Cooper (2010) 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 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 (OECD, 2010). According to the *Organisation Internationale des Constructeurs d'Automobiles* (OICA) (2005), the automotive industry was the largest manufacturing sector in 2005. It contributed 15% of global gross domestic product (GDP), which made it even more attractive for governments and small businesses to pay attention to as an opportunity to harvest and grow the economy. Although there is no recent statistics available on the overall automotive sector's contribution to the global GDP, many countries still acknowledge the importance of this sector in their economies.

### Background

All over the world especially in countries like the United States, the automotive is a major driver of the 11.5% manufacturing contribution to GDP; this

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is as a result of the industry's consumption of products from many other manufacturing sectors (Hill et al., 2010). Currently, according to A.T. Kearney (2014), in China and India the automotive industry accounts for 7% of the GDP. In South Africa the industry's contribution to GDP during 2011 was estimated at 6.8% versus the figure of 6.2% in 2010 (Vermeulen, 2012). In 2012 it was 7% showing a 0.8 per cent growth (Tolmay, 2012).

The provincial government of Gauteng has put measures in place to support the automotive industry through the Gauteng Growth and Development Agency (GGDA) and its subsidiary, Automotive Industry Development Centre (AIDC). The aim of these initiatives is to support the automotive industry with an intention to assist in the growth and development of the SMMEs. However, this has not translated into success as the majority of SMMEs seem to be not getting off the ground. Hence the failure rate of SMMEs in general is between 70% and 80% (Fatoki, 2014; Fatoki & Garwe, 2010; Brink, Cant & Lighthelm, 2003). These statistics have been consistent since it was the case in 2003 as estimated by Brink, Cant and Lighthelm. In 2014, Fatoki has arrived at the same figures. Generally, the survival rate of small businesses in townships is very low; with less than half of newly established businesses survive beyond five years (Cant & Wiid, 2013). Herrington et al. (2010) accord this SMMEs failure rate to the low level of education system, stating that the majority of small business owners possess grade 12 and below. In an attempt to address this, the Gauteng provincial government has prioritised revitalizing the township economy through local SMMEs within the province (Makhura, 2015). In addition to that the Tshwane Economic Development Agency (a municipal entity) has embarked on a new program to identify, train and support SMMEs with growth and export potential which aims to revitalize the township economy.

The challenge of SMMEs high failure rate is not unique to small businesses in the automotive sector as they include all sectors of our economy. According to Cant and Wiid (2013), many SMMEs fail despite the support available from government and private initiatives that support and develop small enterprises. Kongolo (2010) further asserts that SMMEs face challenges not only during economic downturns but also during economic progress. In our view, this contribution carries weight as one gets the sense that managerial and entrepreneurial skills are critical to any business success. The majority of SMMEs in South Africa possess technical skills rather than entrepreneurial skills due to lack of entrepreneurial education at the school level (Herrington et al., 2010). Consequently, the failure rate of SMMEs is attributed to the lack of

managerial capabilities such as lack of business planning which is essential to any business to succeed (Fatoki & Garwe, 2010). In their argument the two authors lament that managerial skill forms the foundation for business success.

It is upon this background that this paper provides a theoretical basis regarding the challenges of SMMEs in the automotive industry within Soshanguve in South Africa. The study provides recommendations on how these challenges can be addressed to assist SMMEs in the automotive industry. This study refers to a challenge as a threat to, an obstacle, a barrier, shortcomings and/or a hindrance to any business success. The challenges of small businesses that lead to failure of small automotive businesses in Soshanguve as the cases with all other parts of South Africa are discussed in detail in the literature review. These challenges include skills problems, access to funding, business development services, access to appropriate technology and compliance.

### **Problem statement**

Small business development strategy and national entrepreneurship promotion are initiated by government in order to increase the contribution of SMMEs overall economic growth in line with the National Development Plan strategy of 2030. Thus the aim of South African government is to create a stronger enabling environment conducive to small business development for sustainable opportunities. Small business Act of 1996 as reviewed in 2003 and the new ministry of small business development is amongst others prioritized as initiatives to bolster entrepreneurship. However, given the challenges reaching the desired objectives is a nightmare. The majority of these SMMEs appear to lack entrepreneurial skills which are seen as contributing factors to small business high failure rate. This was observed by Fatoki & Garwe (2010) and Herrington et al. (2010). SMMEs in the automotive sector in Soshanguve are not an exception to the rule; they are confronted with similar skills challenges faced by the rest of the small business owners in other sectors of the economy. Despite the support available to automotive SMMEs, Tshwane in South Africa is challenged by the high levels of unemployment and poverty. Although Tshwane is said to have the lowest unemployment rate in the country, about 32% of the Soshanguve population remain unemployed as of 2011 (Statistics SA, 2011). This is as a result of limited economic opportunities that have driven the community to depend on self-employment such as backyard mechanic, panel beating and auto electricians as a way of survival.

Thus, the paper intends to provide the challenges faced by small automotive businesses operating as backyard mechanics in Soshanguve.

### Research methodology

A qualitative approach was followed because the paper was intended to explore the challenges facing SMMEs in the automotive industry within Soshanguve. An exploratory study necessitated a qualitative study because it provided an in-depth understanding and insight into these challenges. Furthermore, open-ended questions which addressed the challenges of small automotive businesses in Soshanguve were used. Nonetheless, 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. Interviews were transcribed, saved in rich text format to allow for analysis using Atlas.ti. Atlas.ti helps people to manage, shape and make sense of unstructured information. The use of Atlas.ti allowed the researcher to identify similar codes and group them into themes which are discussed in the findings and discussion section of this paper.

### Population profile

The target population in this study included small business owners operating as backyard mechanics in Soshanguve and support organizations referred to in this study as verifiers. Soshanguve is a township situated 49 kilometers in the north of Pretoria within the City of Tshwane metropolitan municipality (CoT, 2007). This was chosen for easy access of the researcher and cost implications since the researcher stays within the area. Additionally, a purposive sampling method was selected for this study for its ability to gain from the respondents their unique characteristics or their experience, attitudes, or perceptions. Blumberg, Cooper and Schindler (2011) highlight 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) who stated that a small number of interviews may still be enough. Therefore, fourteen (14) participants, who included one (1) AIDC manager, one (1) Satec project manager, the centre manager and eleven (11) SMME owners participated in this study. AIDC manager was selected because of their active role in supporting small automotive businesses through the mandate of the Gauteng provincial government, while Satec is a business incubator for the automotive sector and is located in Garankuwa and incubate small automotive businesses in townships within the Tshwane North area. They are in the forefront of implementing the incubation program to support small automotive businesses in Soshanguve and

surrounding areas. SMME owners were selected on the criteria that they must be a backyard mechanic operating within Soshanguve.

### Significance of the study

SMMEs in the automotive industry within Soshanguve will benefit from this study because the challenges that they face will be identified. Business growth can be experienced as a result of knowledge gained from this study. However, this can only be realized if the SMME sector is sustainable and provides long term jobs to the local citizens. Furthermore, the more successful businesses in the locality of Soshanguve can help to reduce travel expenses and other repair expenses of local inhabitants and thus business performance can improve. Findings of this study are intended to assist policy makers; SMMEs support institutions and SMMEs themselves in finding long lasting solutions to the challenges faced by automotive SMMEs in Soshanguve. The next section reviews literature on the global and South African automotive industry, and findings from different scholars regarding the challenges of small businesses in general are highlighted and discussed.

### City of Tshwane

The City of Tshwane (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; Statistics SA, 2014; CoT, 2012). In the City of Tshwane the automotive industry has a turnover of about R30 billion in current prices. It generates about a quarter of the manufacturing sector's value added and contributes about 3.3% to the City's economy. It is represented by more than 200 companies employing almost 18 000 people (Moseselane, 2012). In his report, he asserts that the City's commitment to the automotive sector that is reflected by its participation in the establishment of the Automotive Supplier Park (ASP), Automotive Industry Development Centre (AIDC) and City Improvement District (CID) in the Rosslyn area is critical.

### Automotive Supplier Park and the AIDC

The Automotive Supplier Park (ASP) is a manufacturing cluster based in the northern perimeters of Pretoria (Rosslyn). The ASP was developed to create a beneficial environment for automotive component suppliers by providing infrastructure, logistics and services (GGDA, 2014).

ASP offers significant benefits, including: close proximity to vehicle manufacturers, cost benefits through shared infrastructure, service and facilities. It is an international benchmark project that has

contributed significantly to the global competitiveness of the South African automotive industry (Moseselane, 2012). While the AIDC is a subsidiary of GGDA (an agent of Gauteng economic development) and serves as an agency of action, using the government’s skills development objectives to create practical programs to assist the automotive industry, training institutions, learners and more specifically the SMMEs in the automotive industry (Goldwyer, 2007).

**Barriers to SMME development**

Researchers in the discipline of small businesses and entrepreneurship have always delivered different findings regarding the barriers to SMME development. These barriers are the reasons why many SMMEs fail in South Africa which amongst others are summarized in Table 1 below:

Table 1. Barriers to SMME development

Lack of access to technology	Rogerson (2008)
Lack of education (a subset of human capital) and training is the most important cause of failure for new SMMEs in South Africa.	Herrington et al. (2010)
The high rate of illiteracy.	Chiloane-Tsoka (2013)
Poor financial management.	Jindrichovska (2013); Bradford (2007)
Lack of proper business training in all functional areas of management.	Seeletse (2012)
Lack of business skills.	Ntshona (2012)
Not keeping proper financial records in the business.	Mungal & Garbharran (2014)
Limited access to funding.	Mazanai & Fatoki (2012)
About 90% fail from lack of experience and competence.	Agwi & Emeti (2014)
Lack of entrepreneurial skills.	Phelan & Sharpley (2012)
The owner dominates and makes all the decisions (one-man rule).	Mbonyane (2006)
Government regulations such as labor laws.	Ladzani, Niewenhuizen & Nhlapo (2011)
Business development services such as mentorship and advisory services.	Boikano Accountants (2014)

Source: own compilation.

Literature in Table 1 is further summarized into five categories under the challenges experienced by SMMEs, namely: skills problems, funding, and lack of proper business development services, lack of access to appropriate technology and compliance problems which are discussed below.

**Challenges experienced by SMMEs in South Africa**

**Skills challenges**

In today’s competitive environment, entrepreneurs need a different set of skills in order to survive and manage the enterprise. Wickham (2006) defines skill as simply a knowledge which is demonstrated by action. According to Phelan and Sharpley (2012),

entrepreneurial skills include: leading and managing people, managing finances, personal organization, creativity and innovation, strategic planning and investigating the opportunity.

Earlier in this study Fatoki and Garwe (2010) identified lack of basic management skills such as business planning as one of the reasons why small businesses fail, while Herrington et al. (2010) highlighted lack of entrepreneurship education as a major reason for SMMEs failure in South Africa. While this places special emphasis on the role of skills supply and the responsibility of various public and private institutional formations to deal with the challenge, AIDC (2014) believes that private sector involvement is crucial in resolving the historical legacy of apartheid. Mohammed and Nzelibe (2014) further allude to the fact that having a well-versed and good business managerial skill is vital to any organization.

**Accessibility of funding**

According to Mohammed and Nzelibe (2014), it is clear that 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 (Usawomji & Tafamel, 2010). Cant and Wiid (2013) further highlighted the fact that the majority of SMMEs require funding from financial institutions and therefore interest rates are a key distress which is a challenge to SMMEs sustainability.

**Business development services**

The Department of Trade and Industry (2013) 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 programs and Co-operative Incentive Scheme (CIS). However, Boikano Accountants (2014) believe that the government’s approach to the SMME’s development is very complicated and over-ambitious, coupled with a complex mix of strategies. The author further argues that the approach has not been sufficiently differentiated and it is a very serious stumbling block towards the SMME’s development.

**Access to the latest appropriate technology**

The use of latest appropriate technology is one of the most important factors behind a successful SMME’s competitive advantage (Mahembe, 2011). 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 on to poor and obsolete technologies (Chipangura & Kaseke, 2012). The two authors go on 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 under investment by SMMEs. According to Phangwane (2014), most SMME's are not up-to-date with their technology neither are they aware that they can access appropriate technology through the use of services provided by the National Research Foundation and the South African Bureau of Standards.

### Compliance with legislation

According to Xavier et al. (2012), restrictive labor regulations ranked the second most problematic factor for doing business in South Africa after inadequately educated workforce which relates to skills challenge. Inappropriate or unduly restrictive legislative and regulatory conditions are often viewed as critical constraints on the access of small enterprises into the business sector and as obstacles to their growth (DTI, 1995). In support of the DTI, (OECD, 2010) cited over-burden some government regulations as some of the factors inhibiting the expansion of businesses. The high start-up costs for firms, including licensing and registration requirements, can impose excessive and unnecessary burdens on SMMEs (Abor & Quartey, 2010). They further highlighted that high cost of settling legal claims, and excessive delays in court proceedings adversely affect SMME operations

### Findings and discussions

Data collected were arranged through content analysis and common themes were identified. Interviews were transcribed, saved in rich text format to allow for analysis using Atlas.ti. About eight responses from the interviewees were translated from their native language to English by the interviewer since he understands African languages. SMME interviewees are referred to as the target group and AIDC and Satec officials are referred to as verifiers in this study.

### Demographics of the interviewees

Interestingly, all the target group interviewees were males and the only female interviewee was from the verifiers group and is a project manager of Satec. Of the eleven backyard mechanics interviewed only one was a non-South African from Zimbabwe. Of the eleven businesses interviewed all were black-

owner-managed. Of all eleven businesses only three were informal, unregistered businesses and the rest were formal, registered businesses.

### Interview questions

Since this study is an extension of the one done by Moos and Sambo (2015) for Garankuwa, the same set of questions were asked to the target group (back yard mechanics) in Soshanguve. The questions were as follows:

- ◆ Describe the business challenges you're your fellow's small businesses face in Garankuwa.
- ◆ Identify the specific challenges your business is facing in the automotive industry.
- ◆ Prioritise the most serious challenges.
- ◆ How do these challenges affect your business?
- ◆ Explain how you deal with these challenges?
- ◆ Share some setbacks resulting from these challenges.
- ◆ Explain the skills you possess, be it technical or entrepreneurial.
- ◆ Indicate whether you have ever attended any entrepreneurial or business management courses or workshops.
- ◆ Explain whether you benefit or not from government support aimed at automotive SMMEs.

On **general challenges** they have, the most common answer was the lack of equipments (with ten responses), lack of funding to acquire the required equipment (ten responses) lack of space (seven responses) and customers wanting to charge their own prices (5 responses). One interviewee from the target group who only repairs Volkswagens said: *"Three clients left their cars here more than three (3) months ago and one does not respond to my calls, the other changed the number, and the other does not work anymore, and as a result I do not have enough space to accommodate my customers. If I can find a bigger space somewhere around I will be glad as my customers always park outside. Unfortunately I cannot go far as my client base is here and people know me here"*.

The target group was then asked to identify the **specific challenges** their businesses are facing. The most common challenges identified were special diagnostic machines (10 responses); complaints by neighbors due to lack of space (7 responses), lack of skilled and reliable man power (also 6 responses) and crime (5 responses). Another mechanic who has been working in his backyard for more than ten years responded *"After so many years of good relationship, my neighbors are complaining saying*

*the place is becoming unhealthy and at times their gates are blocked with cars they do not know.” Furthermore, people steal wheel caps and other car accessories like radios and amplifiers in the cars of my clients and I have to pay”.*

This statement gives a clear indication that space is a serious challenge in Soshanguve township. Most stands are about 300 square meters with built houses and this leaves little space for business, and as a result streets are occupied with business activities.

On the number of challenges highlighted the target group then **prioritized** special diagnostic machines (10 responses), lack of working space (7 responses) and funding by almost all target group members (10 responses).

**On how the challenges affect their businesses** the responses were spread from limiting their potential to grow (2 responses), loss of clients (4 responses) creating tensions with neighbors (1 response) and loss of income (4 responses). One interviewee from the target group responded: *“I am spending too much on labor because I can’t afford equipment”. “More often, I have to get around five people to assist me lift the engine up or remove it (depending on the type of car) and as a result, I pay more while with a machine I would do it with only two people”.*

This finding confirms the earlier study by Mohammed and Nzelibe (2014) that accessibility to funding remains a problem despite the growing number of funders in the SMME sector. The latest appropriate technology can only be acquired when there is funding available.

In order to determine the severity of the challenges the researcher then asked participants to **share some of the setbacks** resulting from the challenges identified. Loss of income was cited as their major setback (11 responses). During the interaction with one backyard mechanic the researcher asked if customers are giving them tough times and he reiterated that customers always try to impose their own prices and at time a compromise is reached. And again clients who know him always want work to be done on credit as they do not inform him they do not have money.

On how they **deal with these challenges** about six (6) interviewees indicated that they demand a deposit before starting with the work and the other five indicated that most clients come to them without a deposit and insisting on it usually turns away clients. Therefore, they work on the basis of trust that the client will pay full amount. With regard to funding about six (6) interviewees indicated that they do not bother wasting their time

and as a result they do the work manually as the equipment’s not affordable. With regard to space and crime interviewees who complained about the space had no immediate solution and were hoping that something will come as they have been trying hard to look for affordable land to buy or rent.

**On the skills possessed** by the target group most interviewees indicated they have technical skills gained in their previous work experience and only one of them was part of the AIDC program and is trained by the Automobile Association in the use of the latest technology within their field of expertise. However, the same cannot be said with managerial and business skills. Earlier in this study Mohammed and Nzelibe (2014) alluded to the fact that having a well-versed and good business managerial skill is vital to any organization. Clearly the target group requires entrepreneurial training so as to have managerial and leadership skills which are all critical for any business to succeed.

On **training** the target group indicated that they have not attended any formal business related training, in fact they indicated they possess technical skills that they acquired in their previous employment. With this the study concurs Fatoki and Garwe (2010) that failure rate of SMMEs is attributed to the lack of managerial capabilities such as lack of business planning which is essential to any business to succeed. As noted earlier in the study, Herrington et al. (2010) pointed out that the majority of SMMEs in South Africa possess technical skills rather than entrepreneurial skills due to lack of entrepreneurial education at the school level. This probably explains the reasons why the backyard mechanics in Soshanguve lack basic managerial capabilities.

The target group was further asked if they feel **government support** aimed at automotive SMMEs benefit them or not. This question referred to business development services such as funding, mentorship and training. In this case all (eleven) felt they are not benefiting at all. According to Mazanai & Fatoki (2012), business development services should be directed towards enhancing SMEs’ chances of securing finance and that of their educational levels. The two authors further lamented that the credit control act requirements are impediments to access to finance from financial institutions.

The researcher further considered the interviews conducted with AIDC and Satec officials regarding the study done in Garankuwa earlier this year by Moos and Sambo to compare the views as they are still relevant to this one. A project manager for

SMMEs skills development was interviewed at AIDC premise in the Automotive Supplier Park, and a centre manager together with the project manager of Satec were interviewed in their premise at Garankuwa incubation hub.

The first verifier referred to as verifier 1 is a project manager of SMME skills development and training at AIDC who 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 as they do not secure jobs with insurance companies, with motor mechanics the cars they can service are those which are out of service plan as the only market”*. This statement could be attributed to the low level of entrepreneurial activity in South Africa.

This verifier was asked about the support available to backyard mechanics in Soshanguve and the verifier indicated that they intend to offer those they can reach computer training, *“we have realized lack of skills like searching information and so on. We have identified specially in a technical sector where they need to beef up their skills hence we try to offer them technical training to address the case and then the business skills part we recently entered into a partnership with Unisa, to address things like basic accounting and business skills so that all the small things or all things that hamper with their progress we address them through training”*. Since we just started, we hope to reach more of them in the next intake.

However, verifier 1 agreed (in his response) with the target group on lack of equipment, proper infrastructure and funding hinders the growth of SMMEs in the automotive industry.

The second verifier was a centre manager from Satec referred to as verifier 2 in this study. Unfortunately most of his responses were not relevant as he only focused on those SMMEs being incubated at his premise and none of the backyard mechanics were part of the incubation program. However, he was relevant in labelling the SMMEs as price takers which goes back to the issue mentioned by the interviewees from the target group that clients try to drop their prices by negotiating for a cheaper one.

Although verifier 3 is a project manager also working at Satec incubation, she highlighted that it is difficult for them to attract profitable clients since they do not have proper and safe workshops. She concurred with the earlier claims of SMME owners that funding is a challenge. She further explained that the biggest

challenge is the stringent criteria as most of the SMMEs do not qualify because of the way they operate. This finding is consistent with Usawomji & Tafamel (2010) 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 accessibility of funding.

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

This finding touches on what has been discussed by verifier 1 citing lack of business management skills, working from hand to mouth and suggesting that the training is not yielding positive results and is in line with that of Mohammed and Nzelibe (2014) and Fatoki and Garwe (2010).

## Conclusions

In this study, the researcher intended to explore the challenges faced by small automotive businesses in Soshanguve. Based on the literature reviewed and the findings of the study it can be deduced that: lack of equipment, funding, special equipment, poor pricing, lack of business skills and informality are some of the challenges facing the backyard mechanics in Soshanguve and as a result push the failure rate of SMMEs high in South African townships. These findings are consistent with the literature by Chipangura & Kaseke (2012), Fatoki and Garwe (2010), Herrington et al. (2010) that SMMEs have limited access to technology development, they lack managerial capabilities and entrepreneurship education. There are no quick solutions to the challenges of SMMEs in the automotive industry. The problems are complex and require a complex array of solutions. These SMMEs have dissimilar characteristics and therefore need different kinds of programs which respond to their individual circumstances and needs. In light of the challenges that SMMEs in the automotive industry face in Soshanguve, recommendations are made. However, the implementation part of the recommended actions rest with all the SMMEs, stakeholders and the local and provincial authorities where they operate. Investment in SMMEs within the automotive can contribute immensely to economic growth and job creation in the locality of Soshanguve and the surrounding communities. In order to address these challenges this study



recommends that AIDC (as the industry driver) should assist automotive small business to be more organized and speak with one voice. Government and enterprise development agencies should consider business skills training as a priority element for the upliftment of the target group.

### Limitations of the study

This study was only limited to Soshanguve township and the findings are not generalizable to other townships across the country. Furthermore, the sample size for SMMEs was limited to eleven due to the chosen data collection method and their views may not represent SMMEs that did not participate in this study.

### Further research

Localizing problems faced by SMMEs in the automotive industry can provide more information on the wide range of problems they face in their respective economic spaces. The same study should be carried out in other provinces and townships as findings from Soshanguve cannot be generalized to other areas due to the heterogeneous nature of SMMEs and the environments in which they operate.

### Policy implications

- ◆ Enterprise Development organizations like Small Enterprise Development Agency (SEDA) should increase their visibility in townships like Soshanguve so as to provide easy access to SMMEs in the automotive and across other sectors that need those services.
- ◆ As one of the priority sector, it is important that local government should set aside funding to assist SMMEs in the automotive with equipment's and special tools, although government cannot buy them the tools, it can make them available to SMMEs that comply with the by-laws.
- ◆ Institutions like the Small Enterprise Finance agency (SEFA) and other SMMEs financiers should open offices in Soshanguve and other townships where SMMEs that require funding are based. At the moment the availability of funding is no longer a challenge, but rather the accessibility that includes the procedure and requirements for qualifying for funding. E.g. SEFA is head quartered in Centurion whereas the majority of its target clients are based in townships.

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