

# Barriers to Enterprise Development: The Case of SMMES Operating in the South African Motor Body Repair Sector.

Goodwell Muyengwa, Karabo Mukhuba, Dr. Kim Battle, and C. Mbohwa.

**Abstract**— This research investigates perceived barriers faced by Small, Medium and Micro Enterprises operating in the South African motor body repair sector. Despite various support strategies spearheaded by both Government and private sector for the development of these small businesses, not much has been achieved in this particular sector due to lack of research. An exploratory survey was carried out to ascertain barriers to enterprise development needs of auto body repairers. Funding opportunities are still scarce, causing a negative impact on equipment acquisitions, infrastructure development and access to market. There is need for proper multi-skilling training on motor body repairs. Support measures for enterprise development for auto body repairers include the need to set up; dedicated lines of credit, acquisition of appropriate repair equipment from Original Equipment Suppliers, certified training from Original Equipment Manufacturers', specific sector focus from various small business funded programmes, procurement of proper infrastructure and employment of better marketing strategies to remove poor business perception from the public. Unless measures are taken to address these problems the disadvantaged communities will forever lumber in poverty.

**Keywords**— Barriers, townships, Small Medium and Micro Enterprises, enterprise development.

## I. INTRODUCTION

**S**MALL, Micro and Medium Enterprises (SMMES) play an important role in the socio-economic stability of a country.

These business outfits contribute significantly to the economy and have a strong potential for growth. In addition they tend to be innovative, productive and generate of employment [1]. Japan, Korea and Taiwan are typical countries that have shown exceptionally high economic growth rates, high employment rates and equitable income distribution as a result of the well structured SMMES [2]. Local Economic Development (LED) programmes have been introduced across South Africa over the past decade to support

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the development of SMMEs [3]. SMMEs have come into existence through small business development policies and the concept of incubators [3, 4] and the setting up of the National Strategy Framework also seeks among other things to develop and promote SMMEs activities in job creation, income generation, and economic growth [4].

Other researchers have focussed on determinants for small business success. Bosman, van Praag and de Witt 2000, highlighted human capital, financial capital, social capital and keeping up with developments relevant to the business. "Reference [5] focussed on psychological factors such as education, experience and founding team composition". Other authors looked into entrepreneurial variables, industry structure variables, business strategy variables, resource variables, organisational structure, systems and process variables [6].

SMMEs in general face various barriers in their day-to-day activities. Several authors have highlighted various barriers faced by SMMEs such as: non-supporting legal and regulatory environment which is connected with complicated and unstable legal regulations [7]; lack of market access due to negative image of SMME work oftenly treated as an incompetent entity [7,8]; limited access to finance which contributes to low credit credibility that results with the impossibility of raising external capital [7, 8, 9]; educational barriers which manifest itself in the imperfection in education especially in the scope of marketing, finances and managing [9], limited business premises, lack of access to resources and technology, poor infrastructure, bureaucratic hurdles and a lack of managerial competencies [10].

It is estimated that 55 % of small businesses fail in the first five years and 81 % within the ten years [11]. Other studies have put the failure rate of small businesses at 78 % [12], and the life span at 18 months. Survival and growth of SMMEs is anchored on implementing effective strategies that can address the foreseen barriers. Consequently in an attempt to assist SMMEs operating in the South African motor body repair (MBR) sector, the paper explores perceived barriers proposes some intervention measures that can be employed to reduce the impact of of these barriers and to enhance enterprise development. This paper focusses on a specific SMME sector as advocated by the, [13] on the development of SMMEs.

## II. RESEARCH OBJECTIVES

The research objectives of this study are:

1. To investigate perceived barriers faced by SMME entrepreneurs operating in the South African Motor Body Repair (MBR) sector.
2. To develop successful, Enterprise Development, intervention measures, that can counteract the effects of barriers.

### III. LITERATURE REVIEW

Small enterprise development is important for a vibrant economy where there is a large number of participants as opposed to few dominant players [2]. Because of broadened competition, consumers benefit from choice of a wide variety of services, better quality and reduced costs. SMMEs employ more labour per unit of capital and require less capital per unit of output [14]. SMMEs contribute to the increase in the competitive position of the entire economy through their flexibility in accommodating to dynamically changing principles of the market game, low cost of activity, entrepreneurship and creativity in the scope of looking for new solutions, new ideas and new areas of activity [8]. In South Africa SMMEs participate in all economic aspects including wholesale and retail trade, small services and service of other business entities, the service of the fixed property, construction, transport, the stock economy and other service, council, social and individual activity. These SMMEs concentrate their activities in the vicinity of big cities or large clusters of enterprises with which they cooperate and which guarantee them the sale market and access to the qualified workforce [8]. SMMEs have noncomplex organisational structures that enables them fast and efficient decision taking which is often based on the intuition and experience of the entrepreneur. SMMEs have short information flow and are able to respond dynamically and efficiently to the threats and opportunities created by the surroundings.

"Reference [15] 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 captive market [16].

The South African, motor body repair sector is characterised by small, medium and micro enterprises. There are three bodies that represent SMMEs in this sector. The South African Motor Body Repair (SAMBRA) is the supreme body that is recognised by the Retail Motor Industry and the Insurance sector. It keeps the registers all MBR workshops that will have met the expected and required standard by car manufacturers who are the original equipment manufacturers (OEMs). SAMBRA has about 1000 members. The National Association of African Automotive Service Providers (NAAASP), is more of the informal sector which represents about 1400 SMMEs found in South African townships. NAAASP is also being used by SAMBRA as an incubation process in upgrading township based SMMEs which are operating in formerly disadvantaged communities [17]. The third body is found in Cape Town and is known as South

African Automobile Repair and Services Association and has about 200 members [18].

Growth of SMMEs in the MBR sector in South African townships can be attributed to entrepreneurial drive of the owners to participate in the economic [19]. The capital structure of SMMEs is influenced by a number of factors, as highlighted by [16] that include culture, entrepreneurial characteristics and entrepreneurs' prior experience in capital structure. Business goals and business life cycle are influenced by the preferred ownership structures. The technical structure of repairs found in the MBR sector is segmented into three sections namely normal repair, minor structural repairs and advanced structural repairs [17].

### IV. RESEARCH METHODOLOGY

The research methodology of the present study includes relevant literature review, (secondary data analysis), and an exploratory survey on thirty received respondents of auto-body repairers, (primary data), including face to face interviews that were done with small business owners and workers. A questionnaire with a five level Likert scale was developed and circulated within the thirty SMMEs in the MBR sector, operating in the Greater Germiston area. Forty two questionnaires were circulated and only thirty were returned, giving a response rate of 71 %. The questionnaire is attached in Annexure 1

Non probability sampling was used [20]. The sample of 30 respondents was chosen according to [21] and it contained the most characteristics, representative of typical barriers experienced by SMMEs operating in the MBR sector.

### V. RESEARCH FINDINGS

From the questionnaire results six important areas were identified and analysed namely business ownership and financing, access to work and the panel system, market orientation, supply chain, infrastructure and training. The most dominant barriers to enterprise development in the motor body repair sector are shown in figure 1.

#### A. Business Ownership

The ownership patterns for the researched SMMEs were as follows 18 individually owned, 7 are family owned and 5 are in partnerships. Most SMMEs are either under sole proprietorship, partnerships or family businesses. Sole proprietorship and partnerships are inexpensive to set up. Under sole proprietorship the owner controls and manages all aspects of the business, gets full benefit of profits, and enjoys few legal and tax formalities, debts and losses are not shared. While in partnerships income is received jointly, there is greater access to finances from the resources of all partners, more people share the work load, losses and legal responsibilities.

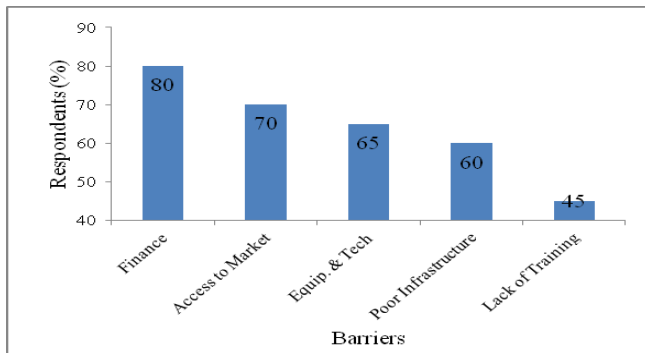


Fig. 1, Variation of response with barriers

### B. Lack of Financing

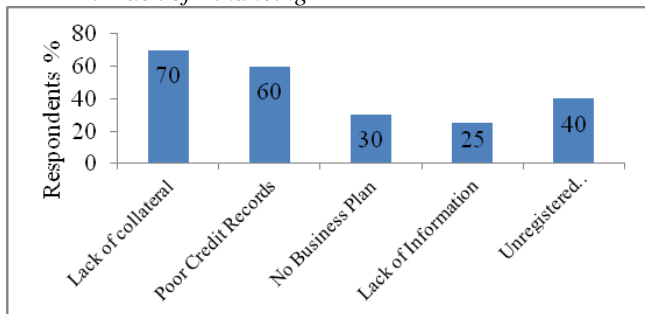


Fig. 2 Barriers to Accessing Finance

The structure of a small business' structure is normally determined by the owners' perceived advantages and responsibilities that are defined by type of business protection sought, operating costs, the way taxes apply, age of business, turnover and how other businesses relate [22]. Financing for work in progress and capital is a problem for all the SMMEs. None reported access to nationally financial schemes. Dailly activities are ordinarily financed from personal loans. The respondents were not at liberty to reveal their profit margins and financial savings. About 77 % of the respondents indicated that they experienced difficulties in debt collection since most customers were not insured. The research established problems affecting MBR entrepreneurs in getting credit as: lack of collateral, poor and non nexistent credit records, unavailability of tax records, operating business not registered and the failure to come up with proper business plan by the studied entrepreneurs. The businesses studied employed approximately 180 people giving an average of 6 employees per SMME.

The proposed intervention measure is that entrepreneurs in the MBR sector must form lobby associations that can approach financial institutions on their behalf. The lobby assoiation can negotiate fees payable on application of a loan, methods of repayment and the type of collateral required [23]. MBR entrepreneurs must also be willing to have their business plans reviewed and certified by accountants, surrender their income statement, balance statement, cash flow to financiers [24]. Monitoring of inflow and outflow of cash can be enhanced through the use of a cash budgeting document as recommended by [25]. These entrepreneurs are also encouraged to develop credit policies for their businesses and should know when to progress with legal action [26]. MBR entrepreneurs must follow business laws and regulations

such as tax laws, licence to operate a business and registration with industry regulators such as SAMBRA [23].

### C. Poor Access to Market and the Panel System

None of the respondents gets work from the insurance industry. All respondents reported that the type of work they do is from individuals. These cars are on third part insurance which does not cover for any repairs. This is supported by information gathered in the secondary data, which indicated that most of the SMMEs in the South African MBR sector are operating marginally due to lack of business [27, 28]. These SMMEs mainly repair old cars that are no longer on warranty, with majority of the cars not on comprehensive insurance cover. Statistics have shown that most cars in South Africa are in fact older than their warranty age which normally runs from 5 to 10 years [18]. These cars are on third party insurance which does not cover for any accidents or repairs. Majority of these cars are found in our townships due to low incomes and in most cases are serviced and repaired in townships. This is the nature of the captive market in the motor body repair sector. Cars that are less than five years old are either well insured or on warranty, these are repaired by well to do MBR workshops that are registered with SAMBRA.

The South African Insurance Association (SAIA) has excluded these SMMEs from a panel system which categorises the MBR sector according to location and size of premises, skill of personnel and adequacy of equipment. The motor body repair workshops have been classified in three grades namely; normal repairs, minor structural repairs and advanced structural repairs [17]. All lucrative jobs from the insurance industry are channelled to registered panel-beating shops that are on the panel system's register [18].

The proposed intervention measure is for the SMMEs to get registered with SAMBRA the controlling body. The registration can only be obtained after meeting the set standard in terms of equipment, operating premises and acceptable skills staffing. SMMEs can lobby to register for partial certificates that can allow them to carry out minor repairs that are not complicated. SMMEs must also improve in their workmanship in-order for them to uphold quality standards required by car manufacturers.

Questionnaire responses revealed that most SMMEs owners do not appreciate the value of keeping ahead of competition. They are not up to date with both environmental and technological factors that are more important for sustainability. Absence of strong vision for growth, lack of technological capability for new vehicle repair and very meagre resources for operating capital have stifled growth and made it difficult for the SMMEs to make inroads into the lucrative market.

As suggested by [26] MBR entrepreneurs must communicate effectively with the media, public and clients. These SMMEs must improve their operational practices [29] that will improve on the creation of strategic networks with other auto-body repair stakeholders such as insurers and towing companies. These network relationships will in-turn improve their access to work.

#### D. Poor Infrastructure

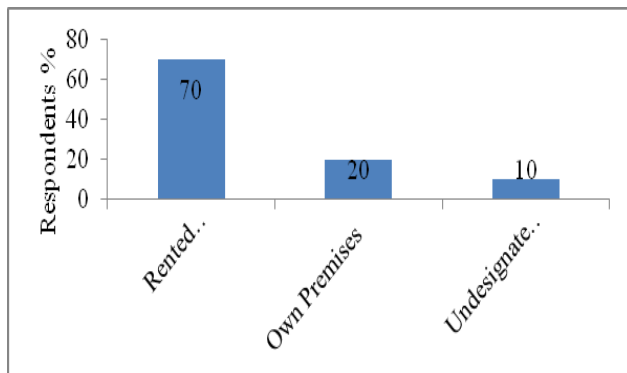


Fig. 3 Variation of Premises Ownership

Almost 90 % of the SMMEs studied indicated that they do not own the premises they are operating from. The rental costs pattern could not be established, since owners were not free to disclose their financial information. Some of these SMMEs operate in undesignated open spaces and have had clashes with local municipal authorities. Most entrepreneurs indicated that they are not yet in a position to invest in their own workshops due to low margins. Local municipalities can help by building incubation centres or motor body repair hubs where these SMMEs can operate from.

#### E. Outdated Equipment and Technology

Most SMMEs indicated that they are failing to access new equipment and technology due to either lack of knowledge and mainly lack of resources. Majority of the surveyed SMMEs are not registered with SAMBRA, hence they do not get any magazines or industry related information on new equipment and technology. The new equipment and technology is required to service and repair newer versions of cars.

#### F. Lack of Training

The majority of the respondents (70 %) indicated that they had some training in auto body repair. Most of the workers interviewed indicated that they received on-the-job training. Lack of formal training might have a negative effect on the quality of work. The concept of multi-skilling could not be established. Most entrepreneurs indicated that they had not received any formal training in general business management. This was evidenced by lack of financial management, lack of business plan, poor human resource engagements connected with high labour turnover. Entrepreneurs are encouraged to read and appreciate Labour Laws, which are well defined in the Labour Relations Act of 1995.

#### G. Supply Chain

In 2000 the Automotive Industry Development Centre, (AIDC) initiated the Motor Industry Supply Chain Competitiveness Improvement Program (MISCCIP) which drew together all key automotive players including National Association of Automobile Manufacturers of South Africa, (NAAMSA), OEMs and the National Association of

Automotive Component and Allied Manufacturers, (NAACAM) notably excluding the motor body repairs in the SMMEs sector. There are no supply chain management networks or strategies set up for the MBR SMMEs, with the effect that spares sourcing becomes expensive and at times lead time experienced in procuring the necessary spares and repair equipment becomes prohibitively long and costly.

“Reference [30] emphasized the importance of strategic alliances with suppliers as a way of reducing costs and increasing competitiveness”. This is a business development model that would be appropriate for the survival of the MBR sector. Supply chain organisation can be used to efficiently procure spares and repair equipment for the MBR sector [31]. Cooperative relationships along the supply chain were also identified by [31] to be most suited for SMMEs sector. This would improve business in the MBR industry by reducing costs in their supply chain.

#### VI. RECOMMENDATIONS

The major enterprise development need of the small businesses operating in the auto body repair industry is finance. During the interviews it was established that most small businesses are operating on shoe-string budgets, and this is severely affecting their cash management and growth opportunities. Most of the respondents indicated that they do not have state of the art equipment that is required to maintain modern vehicles. Khula Enterprise, which is dedicated to improving access of finance to small businesses, should set up dedicated lines of credit specifically meant for the motor body repair industry. This can be achieved through partnership with other Government Departments and the private sector.

In-order for the incubation process, which is managed by the Retail Motor Industry, to be successful, there is need to set up strategies for skills training and adequacy of infrastructure procurement for SMMEs in the auto body repair industry. This in turn will make it possible for the SMMEs to get registered under the panel system. If majority of these SMMEs gets registered on the panel system. Registration on the panel system assures that the small businesses can also access work from the insurance industry. There is need for local Further Education Training colleges to develop appropriate short courses that cover auto body repair sector. The short courses might as well include the concept of multi-skilling, where one worker can carry out various activities such as spray painting and body work. The short courses must also include new vehicle maintenance technology, which was indicated as a major deficiency suffered by small businesses in the auto body repair sector. These strategies if implemented will reduce operating costs for small business in the auto body repair sector, thus enhancing both their profitability and sustainability.

There is need to develop a supply chain framework for aftermarket demands similar to Motor Industry Development Plan (MIDP) that caters for OEMs and component manufacturers. A supply chain framework ensures a stable and less costly accessibility of both spares and repair equipment. The framework will come with supply chain metrics that can be used to monitor bottlenecks as well as

costs associated with the distribution of motor body repair sector needs. The supply chain framework will address the more important acquisition of repair equipment which is badly needed by the small businesses in the auto body repair sector.

## VII. LIMITATIONS

The research was exploratory in nature and attempted to highlight barriers that are faced by SMMEs operating in the auto-body repair sector. The paper contributes to the body of knowledge on SMMEs business challenges and offers some enterprise development intervention measures, which when addressed will improve business operations for SMMEs operating in the MBR sector. The study, however, only investigated some of the barriers that affect successful entrepreneurship development in the MBR sector, in a relatively small sample of participants, making it impossible to generalise the results. More comprehensive research is still required to clarify other underlying dimensions that affect SMME businesses such as the owner's managerial skills set, the relationships and dynamics of the auto-body repair sector such as industry structure variables, business strategy variables, organisational structures, urbanisation influences and family involvement influences.

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