



# Experiences of black-owned Small Medium and Micro Enterprises in the accommodation tourism-sub sector in selected Durban townships, Kwazulu-Natal

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## Abstract

Small, Micro and Medium Enterprises (SMMEs) contribute to South Africa's Gross Domestic Product. The aim of this article is to unpack the lived-experiences of SMMEs in the accommodation and tourism sub-sector in the three townships of Umlazi, Clermont and Inanda in Durban. SMMEs which took part in the study pursued product, price and quality as hallmarks of their differentiation thrust. While some products on offer were essentially not unique, client services and prices did matter. As such, price competition, product and after-sales-services seemed to be the dominant strategies pursued in marketing their businesses. From their subjective perspective, constraints both in accessing initial and in working capital to meet day-to-day business operations were identified as the key factors that affect the survival of SMMEs. The study also reveals that bank financing is beyond the reach of most of these SMMEs, as many were denied loans due to a lack of collateral security. The government could help these SMMEs through a new vehicle that takes into consideration the lack of substantial collateral because only government can do that. Their other main challenges include the difficulty of building a credible client base, competition, locational disadvantages, a low networking profile and lack or absence of effective government support systems. This research recommends that business owners need to be educated about the kind of business they want to venture into before they get approved for funding.

## Introduction

Universally the sector of tourism has a strong presence of small, medium sized and micro-enterprises (SMMEs). The importance of small tourism firms has invoked attention, especially SMMEs, since they play a pivotal role in the developing the economy of the country in relations to their contribution to the GDP, generation of wealth and poverty alleviation, destination development and competitiveness, and sustainable tourism. SMMEs are seen as the backbone of economies, since they contribute massively to the creation of jobs. Policy makers see them as vital in the tourism sector and consequently in the economy. However, SMMEs have many challenges including lack of finance, skills shortages and minimal support from the government.



The South African SMME economy is very diverse and made up of various clusters of initiatives, which need variegated support interventions. The available literature on SMMEs in tourism indicates that most knowledgeable effort has been, and it is still, located mainly in the business and management literature. The research by academics on tourism small companies is limited and has grown much slowly over time. Engagement is also limited on tourism academics in research that involves tourism small companies, “which is surprising because reference to such enterprises is common in the tourism literature” (Thomas et al., 2011:963). There is also limited detailed observed work on tourism free enterprise, and the available data focuses more on the South, especially Ghana, India, Indonesia, Dahles, Malasia and Namibia (Nemasetoni and Rogerson, 2005). During the apartheid era, black ownership of SMMEs in townships was prohibited, and black entrepreneurs faced prosecution for engaging in SMME activities (DTI 2008:26). Before the advent of democracy “(prior to 1994), historically black-inhabited townships were typified by small, informal subsistence-orientated businesses that offered basic products to low-income earners” (Ligthelm, 2009).

Therefore, the lack of black entrepreneurs/black-owned SMMEs in the township should be understood within the historical legacy, which is apartheid. Twenty years since democracy, the involvement of black people in the economy of the country still leaves a lot more to be desired (Zulu, 2015). The apartheid system, through its policies, hindered access to business opportunities by black South Africans, and the ad hoc improvement of townships did not provide necessary infrastructure to boost businesses that are still small to development. During apartheid, black people could not own property, and because of the historical legacy, this posed a challenge since black people who owns businesses, they did not have assets that were accessible for them to use as an insurance for loans. The Group Areas Act also exacerbated the situation by limiting marketplaces available to businesses run by blacks and their cost of doing business was increased (Bradford, 2007:98).

In terms of diverse racial groups in South Africa, black people and coloured people are not as much involved in formal business ventures. If they happen to participate in business activities, it is usually in the business that are much smaller. In fact, most of the businesses that are owned by black people and coloured people are informal ‘survivalists’, which means, very limited and instable projects that serve to protect the survival of a single person or family (Preisendörfe et al., 2014). This article focuses specifically on the black-owned township-based SMMEs in the accommodation and tourism subsector since there is dearth of literature on township-based SMMEs in the tourism and accommodation sub-sector, hence the focus of this research project.

## **Literature review**

Globally, businesses that are small are considered as the support of economies, a vital source of employments and the background for business ideas (Mears and Theron, 2006:21-25). Between 2009 and 2010, SMMEs contributed an estimated 52% to 57% of the GDP in South Africa, and accounted for almost 61% of employment, with 73% of the workers in South Africa employed by the businesses that have less than 50 workers and 45% working in businesses that have less than 10 workers (Barnard et al., 2011:112). In South Africa, the important role of small corporations is shown in the National Development Plan, which predicts that the small corporate sector will generate 90% of the 11 million jobs that are expected by 2030. It is estimated that corporations that are still small will have to add approximately 800 000 jobs annually until 2030 (Zulu, 2015).

Although SMMEs are often presented as the backbone of economies (Mears and Theron, 2006) and as contributing a lot in terms of employment in the private sector (Schwarze, 2008:139), they face numerous challenges that are affecting their business routine and



capacity to discover their complete potential. Approximately 57% of small businesses fail within their first year of conducting business, whereas 70% to 80% of all new small businesses fail within the first five years (Barnard et al., 2011:112). There are two main explanations for utmost SMME failures, those are: (i) the absence of business competencies between the main founder-owners and (ii) the absence of skills and abilities of individuals who hold key positions (Ahmad and Seet, 2009:98).

Lindiwe Zulu, who is The Minister of Small Business Development of South Africa in her Budget Vote, (2015/2016), argued that “despite the existing sources that point to the upward trend in the number of SMMEs registered since 2000, there is growing consensus that South Africa’s business activity rate, growth and sustainability are declining,. South Africa still lags behind its BRICS peers” (Zulu, 2015). Zulu (2015) further argued that the not paying of the SMMEs and Cooperatives generates an obstacle to business growth and eventually to the development of the economy. Small businesses (especially those owned by black South Africans) face difficulties with gaining access to funding from the core profitable banks, based on not having suitable surety nor a long track record of operating proper businesses. If they do not gain access to capital, informal businesses will stay small and weak, not being able to improve the same record of accomplishment and asset base that the banks require.

Rogerson (2004:275) argued “as the economic geography of tourism in South Africa has been a relatively neglected field of academic enquiry, the existing literature is dominated by studies of the accommodation sub-sector and especially of white-owned bed and breakfast establishments or small guesthouses”. In most countries of the world, large businesses control and dominate economically the tourism sector. The situation also applies in the tourism sector in South Africa where most of the South African tourism businesses fall into the group of SMMEs (Rogerson, 2008:58). In South Africa, there is a dearth of precise information regarding the total of SMMEs in the local tourism economy. Any accurate data on developing black-owned tourism businesses is lacking and most of these black-owned tourism initiatives are not registered or they are small initiatives. In research that was conducted in Free State province, it was found that 97% of formal initiatives in the region’s travel and tourism sector could be categorized as SMMEs. Within the tourism sector, there are two categories of tourism SMMEs that should be taken as different sub-groups of businesses (Rogerson, 2008).

The ownership of tourism enterprises has been, and still is, dominated by a majority of white entrepreneurs. With regards to access to market, capital, marketing and networking skills, emerging black entrepreneurs lag behind. Entrepreneurship activities in tourism in transitional economies like South Africa are often exposed to numerous challenges and obstacles which are related to economic policy, capacity, skills and access to market. In South Africa, there is unequal distribution of wealth between white and black entrepreneurs, and this fact affects the ability of an emerging entrepreneur to succeed in tourism. The South African economy is exposed to challenges such as a high rate of unemployment of up to an estimated 28%, and especially among the youth, lack of entrepreneurial and technical skills that are required for operating profitable businesses, lack of access to finance, and massive poverty among the masses (Byamukama, 2014:2).

It is argued that the South African tourism industry, structurally, is largely dominated and concentrated on by a top group that is small, generally owned locally, tourism organisations, that control the economy of tourism (Rogerson and Visser, 2004; Nemasetoni and Rogerson, 2005). This is similar to the condition in Australia and the United Kingdom, but, the highest number of tourism initiatives would be categorized as SMMEs (Nemasetoni and Rogerson, 2005:196). Evidently, in South Africa, Sun International and Southern Sun are the top enterprises in the accommodation sub-sector however in travel and tourism sector the leading enterprises are Imperial Car Rental, Rennies and Avis to mention a few.



Nemasetoni and Rogerson (2005) argued that overall, there are three-tiered hierarchies of enterprises that the economy of the local tourism can be conceptualised as. The elite groups are at the top of the operations of large initiatives, that are accountable for, *inter alia*, the major travel and tour agencies of the country, conference centres, transportation and casinos. However, Namasetoni and Rogerson (2005) argued that the utmost part of this business pyramid is signified by the undertakings of, approximately, two different types of SMMEs, i.e. the middle tier and the lowest tier. The middle tier is comprised of groups that are established well, almost primarily owned by whites. A host of various establishments that are from travel and tourism businesses and from small hotels and bed and breakfast are operated by the middle tier SMMEs. In the travel and tourism business the lowest tier, is represented by the tourism economy owned by blacks in the South African context, that founds micro-enterprises that are registered formally, as well as a number of informal tourism initiatives. This sector of developing tourism businesses that are owned by black people is the centre of great debate in the context of national government policy goals for changing the tenure structure of tourism, by increasing the participation of entrepreneurs that are black (Rogerson, 2003, 2004; Nemasetoni and Rogerson 2005).

The development of tourism small companies is motivated by the following reasons, that is, “opportunistic” or “growth” and life style. One distinguishing feature of tourism, in terms of the South African SMME development, is that it signifies a significant point for what is defined as “lifestyle entrepreneurship”. Economic motives in running lifestyle entrepreneurship are complemented by “non-economic”, environmental or personal factors in boosting the start-up of small businesses in tourism, mostly in the management of bed and breakfast accommodation or small guest houses. The other sub-group of tourism SMME entrepreneurs is a group of black and white tourism business people who are determined by “opportunistic” or “growth” inspirations for the improvement of small businesses in tourism. The economy of SMME in South is occupied by a rising number of “marginal” or “survivalist” business people who manage SMMEs in tourism with slight prospect of considerable earnings or work expansion.

The available literature on small companies in tourism has focused on the accommodation sector and there is very little research on the tour operating sector, particularly in the developing world. From the South African context, the only literature that is present on tour operators that are black, are some descriptive business case studies which narrate parts of the history and improvement of two of the more recognized functioning corporations (Rogerson, 2005).

### **Spatial distribution of informal township enterprises**

Charman and Petersen (2015) have argued that there is a gap between information resulting from national studies (e.g. quarterly labour force survey, (QLFS)) looking at the way we understand informal sector and the economy of the townships, and from small-scale, sector-specific case studies. They then conducted a study, which included what is called small-area census for each of the five residential townships around Cape Town, comprising a variety of formal and informal residential settings. The study was designed to recognize and write down all financial activities and micro-enterprises, comprising the ones that were not recognisable businesses but were run for financial survival or to enhance the income of the household. Through their findings they presented the enterprise category and count of micro-enterprises in Brown’s farm as follows: Sheebeen 286, Spaza 135, Green grocery 70, Trade 48, Recycling 46, Transport 43, Educare 42, Manufacture 14, Agriculture 9, Tavern 6, Entertainment 3, Restaurant 3, Accommodation 2, Game shop 2, Artist 1, Wetland 1, Wholesaler 1 (Charman and Petersen, 2015).



Charman and Petersen (2015:3) stated that there were mostly related outlines in the incidence of micro-enterprises across the all-five places. They argued that most businesses in the township respond to the needs of the local people for food, like takeaways, groceries and entertainment. They further described that a far lesser part of township businesses that responds to the needs related to furniture or home improvement (Charman and Petersen, 2015). The Department of Trade and Industry (2008) indicated that the largest SMME sector in townships is informal, and is used by the unemployed as a means to provide for basic needs. For the lower income groups (Ligthelm, 2007) SMMEs serve as accessible shops, drawing a significant portion of domestic spending in urban areas that are less developed.

In numerical terms, the micro-enterprises that were most common in the places surveyed are retail sales of liquor and grocery shops. Preisendörfe et al., (2012) in identifying the types of business initiated (through their survey of 90 entrepreneurs at Walmer Township in Cape Town) they found that 42% were trade businesses, 28% service, 20% catering and 10% handcrafts/construction. The six most commonly found businesses in their sample of 90 ventures were taverns/*shebeens* (n=15), *spaza* shops (6), sweet vendors (5), taxis (4), butchers (4) and hair-dressers (4).

According to McGaffin, Napier and Karuri-Sebina (2015) the type of properties required to run these business activities varies according to the type of service activities. Mechanics, may operate from the back yards or a rented warehouse or garage. Hairstylists and beauticians can choose to run the businesses from their homes, or manage them from commercial buildings. Some of the things like electrical engineering and plumbing, do not need any building, because can also work in the premises of their clients. The taxis are the most prevalent method of public transport, though people from the townships sometimes use trains and buses.

The above findings by Preisendörfe et al., (2012) seem to concur with those of Charman and Petersen (2015) where they also found (through their study of five residential townships around Cape Town) that liquor, *spaza* shops and house shops are the top three categories that make up 46% of the identified enterprises. Of those businesses on the high street, the most frequently-occurring ones are: hair care services (15%), grocery retail (*spaza*) (12%), take-away food (9%), liquor (8%), house shops (7%) and green grocers (6%). On average, 54% of the hair care businesses are located on the high street and 46% of the green grocers – but only 18% of the grocery/*spaza* shops. In mostly informal areas such as Imizamo Yethu and Sweet Home Farm, where few formal streets extend through the township, a higher proportion (29%) of grocery/*spaza* shops are found on the high streets.

In their study McGaffin, Napier and Karuri-Sebina (2015) argued that people in the township are oriented by consumption, a lot of families spend a large proportion of their earnings on food and drinks, clothing and footwear, home electronics and furniture, retail being the overriding economic activity in townships. McGaffin, Napier and Karuri-Sebina (2015:30) further argued that enterprises that provides services in the townships that are personal and for households are orientated internally, since their customers are from the township. These services consist of hairdresser's, crèche, mechanics, traditional healers, plumbers and electricians.

Based on the South African context, the National Small Business Act 102 of 1996, categorises SMMES into five stages of development: (i) survivalist, (ii) micro, (iii) very small, (iv) small, (v) medium-sized enterprises (Turner et al., 2008). Survivalists function in the informal sector of the economy, owners have no abilities to run a corporate, they are not licensed and they do not conform with legislation (Turner et al., 2008), they are mostly involved in selling the goods, have no training/high school education, they will not employ others in the operation of the business, revenue generation is under the poverty line – average of R1 500 per month, usually



operate in the street market and stall market – like informal street vendors and hawkers, etc, approximately half of the survivalists have right to obtaining a bank account (Gauteng SMME Policy Framework, 2009-2014).

The National Small Business Act 102 of 1996 defines a “small business” as “a separate and distinct business entity, including cooperative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or subsector of the economy”. The Act lays the principles that are ought to be used to categorize businesses into four categories. Tourism in the townships draws individuals from the outer areas, to come and familiarise themselves with ‘township culture’ and gain perspective on South Africa’s racial history. Main features of this experience include visiting the cultural and political sites, and local cafeterias. Services like catering and hospitality are predominantly provided from people’s households, it is provided in a manner of bed and breakfast (B&Bs), to provide visitors with a friendlier township experience (McGaffin, Napier and Karuri-Sebina, 2015:34). Most of the studies on black-owned SMMEs in the township tourism business have focused on Soweto (because it attracts visitors due to its well-known struggle history, legacy and associated attractions) as well as Khayelitsha and townships in the Western Cape, particularly the Cape Flats (Booyesen, 2010:283; Marschall, 2012:38). However, little has been published on similar initiatives in Durban and other urban centers in South Africa (Marschall, 2012:38).

In 2008, in South Africa, out of the country’s nine provinces, KwaZulu-Natal (KZN) was the third largest contributor (after Gauteng and Western Cape) to South Africa’s domestic tourism activities. The province of KZN attracts approximately 1.3 million visitors that are foreign and 13.9 million tourism trips that are domestic on a yearly basis. In 2008, tourism activities generated 18.3 billion Rands as a direct contribution to the KZN economy, and 26 billion Rands in indirect contributions to the economy of the province. The 18.3 billion Rands are around 10% of KZN GDP (The KwaZulu-Natal Tourism sector, 2010:6). There is an important role that is played by tourism by contributing to the creation of employment. In 2008, in the KZN tourism sector there were 83,000 direct jobs and 167,400 indirect job opportunities that were created (The KwaZulu-Natal Tourism sector, 2010:6).

### **Challenges faced by SMMEs: An international perspective**

Although globally and locally SMMEs may be playing a role that is important in creating growth in the economy and opportunities on employment, they are faced by a numerous business challenges. As a result, some survive those business challenges, but most do not survive and rather perish along the way in the business life-cycle. In international studies, some of the challenges faced by SMMEs relate to “lack of financing, low productivity, lack of managerial capabilities, poor access to management and technology, and heavy regulatory burdens, among others” (Saleh and Ndubisi, 2006:12). For example, in Namibia, numerous constraints have been identified as facing the SMME sector. There is a lack of a policy environment that is suitable, problems in the market, economic constraints and participation problems, and the effects of globalization.

However, the key limitation to the development of SMME sector is identified to be the inability to access business information. It is argued that the survival of SMMEs in this increasingly globally competitive environment depends very largely on their ability to access business information and use it as an economic supply. One of the limitations that affects their capacity is access to adequate and relevant information about businesses to make informed decisions. It is generally agreed that small businesses need to have access to information that is up-to-date in order to progress at the same time with technological improvement locally, provincially and internationally (Chiwere, 2008:137-138). The lack of sufficient infrastructure services (e.g.



good telecommunications) impacts negatively on SMMEs since it prevents access to information and opportunities for entrepreneurship (Chowdhury, 2007:242).

In Bangladesh, the broad macro policy regime is argued to have remained biased against small business development in numerous ways, including through the allocation of investments in the public sector, taxation and trade policies. Therefore, it is argued that a country can be expected to have a high entrepreneurship level if it has policies, organizational environments, and systems of education that are conducive (Chowdhury, 2007:242). Chowdhury (2007) further stated that other challenges facing SMME sectors in developing countries relate to lack of capital, lack of availability of long-term capital via banking channels, the absence of capital that is organized properly and functioning and bond market, inadequate training facilities, inability and discrepancies in laws enforcement, bureaucracy or bureaucratic interpretation of rules, absence of firm political commitment, absence of accountability, absence of rule of law, and absence of control of corruption (Chowdhury, 2007:242).

In the Malaysian context, SMMEs are faced by the following challenges: difficulty in getting funds from the government and financial institutions, and interests charged by these institutions on loans that are taken by SMEs are high; Absence of human capital; High level of international competition from Multinational Corporations (MNCs) or new competitors (Saleh and Ndubisi, 2006:12).

The development of small firms in tourism economies is seriously constrained by the power and competitive power enjoyed by large initiatives, particularly in the South. In Indonesia, for example, it is hard for small establishments to draw individual tourists and, the reason is that of the disintegration of the industry, the position they are in is weak as opposed to large tour operators. Although tourism small firms in many parts of the world dominate tourism economies numerically, their absence of lobbying voices that are strong within the background of stakeholders at the destination means that they tend to lose out to the stronger voices of large enterprises and political groups” in tourism planning and policy circles (Rogerson, 2005:3-627).

### **Township businesses: Growing or dying young?**

The likelihood of a new SME surviving more than 42 months is less likely in South Africa than in any other country sampled by Global Entrepreneurship Monitor(GEM) (Von Broembsen et al. 2005, cited in Olawale and Gwaru, 2010:730). The actual issue in new business growth is that most of the new SMEs in South Africa are not moving from stage one (existence) to next stages like survival, success, take off and resource maturity (Olawale and Gwaru, 2010:730). Olawale and Gwaru (2010) further argued that there are multiple ways of defining business development and ways of evaluating this development. Business development is usually defined and evaluated by using absolute or relative changes in sales, assets, employment, productivity, profits and profit margins. Sales data are generally readily obtainable and owners of the businesses themselves attach high importance to sales as an indicator of business performance.

Kerrington, Kew and Kew (no date) also found an a link between levels of education and achievements in entrepreneurial projects, and poor level of skills in South Africa was found to be an important contributing factor to the entrepreneurial capacity of the country being below average. Other key constraints to entrepreneurial activity in South Africa relate to the following factors: education and training; government policies; financial support (access to finance); capacity for entrepreneurship and; market for openness. However, it has been argued that even access to finance is an essential factor in increasing entrepreneurial activity, it is not a factor that is fundamental. As indicated earlier, providing finance where there is no



infrastructure that is adequate, opportunities in the market and business skills and management is less likely to lead to a growing number of businesses that are successful.

Byamukama (2014) also found that the absence of marketing skills is affecting tourism operators that are still emerging in South Africa and other developing countries. It was therefore recommended that new business owners in the tourism sector should be provided with education and skills training on marketing and entrepreneurial skills. The following factors serve as obstacles to growth of the emerging tour operators in South Africa: lack of finance is a major constraint and a key obstacle to growth of new entrants, and the entrepreneurial quality of the SMME owner is a serious factor that affects the ability of SMMEs to continue and gain sustainable growth. Formal and training on-the-job was perceived as one of the main factors that provides the foundation for success. Those entrepreneurs who have obtained higher educational level and entrepreneurial skills are better prepared to communicate with bankers and understand them, suppliers and customers which will then lead to higher degree of growth in their businesses (Byamukama, 2014).

Smith and Perks (2006:17) on their study on “training interventions needed for developing black micro-entrepreneurial skills in the informal sector: a qualitative perspective”, have argued that entrepreneurial activity ratio (4.3%) has gone down compared to other developing countries (an average of 21.5%) due to absence of funding facilities and a scarcity of skills because of education and training that is poor.

Makhoba (2010:25) on his study of “informal sector entrepreneurial activity within the townships in Emfuleni Local Municipality” also mentioned that the absence of access to finance remains a main obstruction to the growth. He also found that low level of skills for most entrepreneurs might also hamper their ability to develop their businesses past the one-man operations.

Smith and Perks (2006) further argued that a large proportion of the population of South Africa is not skilled and the figures in the formal education system are high. There is a need for skills acquisition, and training is needed for the acquisition of such skills. These much needed skills for black-entrepreneurs relate to the following four groups of skills: personal skills, technical skills, business operations and management skills. A research study by Nkosi et al., (2015) on “corrigendum: skills required for the management of black-owned small enterprises in Soweto” found that a number of owners in the enterprise do not have management skills as well as business skills, there is not even one significant success factor in handling small enterprises, competitive advantage is overlooked. They further argued that multiple skills like marketing skills, financial skills, legal skills, entrepreneurial skills and technical skills are essential for the functioning of an enterprise that is successful.

SBP Alert (2009) (who are business environment specialists) has cited the GEM 2008 statistics which showed that 8 in 100 South African adults own a business that is not more than 3.5 years old, significantly behind other low to middle income countries, where on average 13 out of 100 adults are starting new businesses for more than 3.5 years, showing a failing rate that is high among business start-ups. They also noted that South Africa is ranked 41<sup>st</sup> out of 43 countries in the incidence (survival) rate for established business owners. Many small businesses (Cant and Wiid, 2013) in South Africa do not make it past the second year of trading, their failure rates is as high as 63%.

## **Research Methodology**

Qualitative research helps to understand underlying social issues faced by individuals in society, which might in turn affect the society as a whole. According to Blanche et al., (2006), “Qualitative research methods seek to describe and interpret people’s feelings and



experiences in human terms and allow for engagement in open-ended, inductive explorations". This study adopted a qualitative approach undergirded by an interpretivist paradigm but a descriptive case study in design. The study was conducted in three selected Durban townships, in the Ethekewini District, in KwaZulu-Natal, namely, uMlazi, Clermont and Inanda townships. The three townships were chosen due to the history of their icons in the fight against apartheid. John L. Dube (co-founder and first ANC President established the first industrial school famously known as Ohlange High School for African boys in Inanda. Griffiths and Victoria Mxenge, human rights lawyers came from uMlazi township. Archie Gumede, the late and well-known ANC activist, came from Clermont township. They began their lives in these townships and opposed apartheid in the struggle for liberation. Tourists are interested in their liberation histories, the culture and heritage of these townships.

Thirty participants (owners/managers) were purposively selected from three separate groups of ventures: B&Bs, guest houses, and Travel and tours from each township. Face to face interviews were carried out with each participant in which an interview guide was used. A thematic analysis was deployed for data analysis in which patterns and themes were identified and coalesced.

## Findings

In research conducted by Rogerson, et al (2004), business challenges, which are decisive in influencing the long-term prospects of survival of SMMEs, were access to start up and working capital, and business training and skills. This research study assesses the relevance of their propositions over a decade later, to understand why these factors are still decisive in determining the success or failure of SMMEs. According to the interviewees, their main challenges revolved around capital constraints, building a stable client base, registration and getting permits, finance and building a client base, lack of industry related information, getting clients, finance and little or no government support and marketing and advertising ineptitude. They mentioned that capital constraints and building a stable client base have a bearing on the welfare of SMMEs as the former affects business setup while the latter determines the business's profitability, which matters considering return on capital invested. This important because it influences the capacity of small businesses to access working capital for year round business activities, as well as saving for long term business expansion and development.

The experiences of those who were less than 3 years old in business reflected the following challenges: locational disadvantage which limited business reach to local customers only; no working capital to finance needed assets to run the business; difficulty in building a stable clientele base; a lack of the needed business assets and resources which affected the bottomline; seasonality of business and the proliferation of similar size enterprises in the sector; and low profit margins in the township were clients are unable to pay premium prices.

The location of the business was mentioned as challenge especially for the business owners who are in the accommodation sector. They mentioned that tourists hardly come to the townships as they prefer going to town rather than townships. One of the participants had this to say:

People do not like to come here 'ekasi' (Township), they prefer going to the city where everything they need is in close proximity to them. The only time we get clients is maybe when there is a wedding or function happening around when people need a place to sleep. That is when they make bookings to be closer to the event. [B&B owner, Clermont]

Among the challenges, locational disadvantages delimited business to local customers only. Working capital constraints and external factors (seasonality) have relative importance.



Irrespective of the number of years a given business has been operating, working capital constraints affected their businesses and this aligns well with the findings that capital has been a perpetual issue for business success. However, with respect to local tourists, social media and word of mouth referrals made a significant contribution, thus the assessment indicated that to an extent black-owned township SMMEs were dynamic in their business strategies, being able to differentiate their tools of strategy implementation with respect to the tenor of the business clients they were attracting.

### **Finance for start-ups**

One of the participants who is in the tour operating business stated:

“When I started my business, finance was a major problem, so much so that I did not have even one car to transport people with. I had to hire a car every time when I had clients that wanted to go somewhere. Hiring a car was an expense on its own because that money came out of my own pocket.” [Tour operator-Inanda]

This was also corroborated by another Travel and Tours Business Owner who said:

Starting this business was very difficult especially because I had no capital to start with and I needed cars. I had to hire cars every time I had clients and not just cars, good cars because as black people we are competing with white people who have everything and their services are good. You are new and still trying to prove yourself and make customers. So it's tough. [Tour operator-uMlazi]

The respondents were also asked whether they had been denied a loan by such institutions as commercial banks, government and development institutions. Most of them started their business using personal savings. A few participants were able to access loans. Those who were not able to access loans, mentioned different reasons as shown in the excerpt below:

When I went to apply for a loan at the bank, I was told that since I do not have a pay slip, they were able to give me the loan because they needed to be assured that I would be able to pay them back. What I did not understand is that where did they think I will get that pay slip since I was not working, I was trying to start my own business” (Aspiring B & B owner, Umlazi)

Lack of collateral security for the loan and the absence of a track record were the dominant reasons given by those who applied for bank loans. Rogerson et al (2004) enlist this as one of the explanatory factors as to why black owned businesses did not have access to start up or operational finance from banks and other institutions. Many of them did not apply for loans from financial institutions representing some form of self-censorship or self-restriction. This self-restriction could be a result of word of mouth and perception among SMMEs that banks are generally anti-small business resulting in some negativity towards banks. On their side, banks generally perceive SMMEs as risky because of their lack of collateral.

### **Reasons for business failures in the early stages of growth in the sector**

The underlying causes of business failure from the perspective of the business owners and operators were also noted. Several responses were lack of business education and training; lack of finance, low skills base and little government support; failure to attract new business; coupled with ineffective marketing methods; and one of the participants said: “lack of business stamina and impatience to let business take-off”.



One of the respondents on the qualitative interviews who is in the tour operating business said:

“You know one of the things that makes people to fail in this business is because they are in it for money. They have no passion in doing this business but they just want to make cash. That is why when they see that the business is slow they then give up and close the business down. These kinds of businesses take time to mature and you need to be patient, market yourself and get clients” [Owner-Tour operator-Inanda]

Among the prominent challenges identified by the business operators were lack of business education and training – which is quite critical in determining long run business future. Getting finance and building a client base, sustaining ‘business stamina’ and lack of finance were also prominent. Capital has a significant role to play and could be considered decisive in the early stages of business and soft skills such as management play a part in business outcomes and determining its long-run prospects.

### **Constraints to survival and growth**

The same factors that entangled start-up and progress also entangled survival and growth. Finance, location, marketing and skills incapacity were significant in the ventures early stages and during the growth stages issues of marketing, re-financing, product differentiation became prominent. The major challenge was how to attract high value customers both domestic and international clients. The uniqueness of the products offered by the black-owned SMMEs to their clients was examined. Many offered over-night accommodation with food and others offered township tours and a shuttle service to the airport. Undergirding these approaches, they attempted to differentiate their offering based on price, quality, product and service aggregation (accommodation and food in one place). A few wanted to know more how they could further differentiate their products. One of the participants mentioned that ‘price competition, product and after sales services are the dominant strategies pursued in marketing businesses and attracting clients in this sector’.

An assessment of the level of competition as perceived by the business operators is also significant. The respondents were asked, “Do you find the industry very competitive?” and a follow up question was those who responded in the affirmative, “Why do you find the industry very competitive?” Since most of these businesses have no separate existence from their owners, business type and perception of industry competitiveness was reflected as representing the views of the business operators.

Competition seems to be high in the Travel and Tours Industry. It is in this industry that start-up and working capital are key determinants of business welfare and success. Information asymmetry attributing a strategic disadvantage to black entrepreneurs is important in the Travel and Tours industry, where high-end visitors operate with highly networked organizations, who are responsible for bookings and destinations. Black entrepreneurs have pointed to lack of information in this sector as compared to their white counterparts who are doing well because they can access high-end clients with relative ease.

Financial constraints are having a deterministic effect in the Travel and Tours industry, with capital seemingly the only barrier to entry making the industry very competitive. Barriers to entry are low in the accommodation sector, since the study showed indicated that most Bed and Breakfast are run on residential areas with ease and low capital requirements. These factors shape the competitive structure of the various facets of the tourism industry determining the welfare of businesses.



## Discussion

In the foregoing analysis a diverse array of factors has been examined. In examining the factors which affect the survival and long run prospects of SMMEs, capital acquisition constraints both in accessing initial capitalization of the businesses, as well as in acquiring working capital to meet day to day business operations are among the key factors with relative importance. When one considers the fact that the majority of the SMMEs interviewed in the study are largely within their first five years of operations, it becomes of noteworthy that these challenges have a decisive impact on their long run performance determining business success or failure. While bank loans were beyond the reach of most of these SMMEs, many did not even bother to apply reflecting some apathy. Some were denied loans as they did not have the needed collateral security to back up their financing requests. The government could help these SMMEs through a new vehicle that takes into consideration the lack of substantive collateral and open up new marketing opportunities and vistas for them access the needed finance and markets to run their businesses successfully and create jobs.

Another concern, a gendered analysis reflected that women face these challenges more than men in similar businesses do. With the greater burden of responsibility on women in South Africa's low to middle income households, curtailing these challenges and enabling women to take more roles in SMMEs will go a long way in alleviating poverty. The other factors mentioned are administrative in nature and reflect on the role of government in licensing and creating the necessary environment where the SMMEs can set up and run operations. These concern the registration process, which is considerably lengthy, and in some cases, it was mentioned that the profitability window for the business closes because of late and prolonged approvals. These ranged from licensing to health regulations and associated licensing. This meant other incumbents captured the opportunity while a new entrant is occupied with administrative issues. Problems at startup and in the medium term, differed from business to business, however in the end, concerning survival of the business, the problems seemed to have the same consequence. For instance, lack of business knowledge and skills, was evident with reports of low profits, exit plans and the dire need for relocation to where the opportunities were. In this regard, there is a need for government through its various agencies to ensure that unnecessary delays in registration and granting permission are removed to enable SMMEs to commence operations as soon as possible by speeding up the processing so that they can respond quickly to market opportunities.

In the analysis concerning the source of funding for SMMEs. Own savings comprised a larger proportion of the funding in business setup followed by a combination of own savings aided by a short bank loan. Government institutions and commercial bank funding represented a meagre proportion of the funds. This reflects the limited role government and commercial banks have been playing in the incubation of SMMEs. This matter needs to be revisited in order to devise vehicles that enable SMMEs to fully participate in the economy supported by these two important sectors.

Lack of business training and education was reported among the larger proportion of SMMEs in this study. Key issues that need to be addressed relate to strategies and tactics to managing the business in a dynamic environment with intense competition, the ability to make use of information to build the SMME's competitive edge, and the ability to analyze the industry for potential market opportunities or niches. These, and other factors, have hamstrung this SMMEs due largely to a lack of business skills and coaching. Government needs to step up efforts in training SMMEs with leading edge strategic management and marketing skills to enable them to realize their potential in a rapidly transforming business landscape. Government support is a critical factor in SMMEs early growth. If it is not Government, no one else will do it.



## Conclusion and recommendations

From their own experiences, SMMEs faced problems of accessing working capital to finance day-to-day business operations or for purchasing current business assets. Building a client base continued to be a challenge as well as competition, locational disadvantages, low networking profile which limited most business of these SMMEs to only local markets and also a lack or absence of effective government support systems. Broadly speaking, institutional factors, such as access to finance, government support and availability of personal development opportunities, such as skills training and development, are deterministic factors in shaping the fortunes of small businesses. This research shows that there is still a lot that needs to be done to assist the business owners in the SMMEs sector. Lack of adequate funding was reported as the main problem that the business owners are facing. Some participants also mentioned that they lack skills. This means that people need to be educated about the kind of business they want to get into before they even get approved for funding. The government also needs to be able to provide funding for those who apply for it and who have the required skills for the business. It can be concluded that government support is crucial for SMMEs in every conceivable way, from registration, skills empowerment, funding and marketing.

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