Exploring Why Black-Owned Financial Service Providers in South Africa Have Failed

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Abstract- South African businesses have underperformed after the end of apartheid due to a variety of causes, including a lack of global competitiveness and a global recession. As a result of poor performance, some organisations have laid off tens of thousands of employees and/or shut down.

The unique contribution is the use of the multi-sector approach to estimate corporate failure rather than anticipating failure in a particular sector, as failing organisations confront the same challenges regardless of industry. According to Fatoki and Garwe (2010), most new South African small and medium-sized flrms (SMEs) do not go past the "existence" stage of growth and into subsequent phases such as "survival," "success," "takeoff," and "resource maturity." As a result, many of these small and medium-sized flrms (SMEs) are considered to fail within their initial years of operation and fail to provide societal advantages (Persson, 2004).

It has been established that a lack of cash is the major reason of both poor development and a high failure rate in South African small enterprises. As a result, this article investigates the factors that contribute to the inability of black-owned enterprises in South Africa's flnancial services market to prosper. Financial Service Providers (FSPs) play a critical role in supporting innovation in the South African economy.

Lack of knowledge, lack of flnancial control processes, and lack of staff cooperation with training, education, and flnancial report management, as well as accounting system upgrades and modiflcations, have all been identifled as factors in determining the contribution and relationship between flnancial reporting and flnancial stability. Much of the criticism is informed by the author's years of experience in the area, with some support coming from the flndings of his dissertation work on how to enhance the South African flnancial services sector (Msimango, 2020).

I. INTRODUCTION

Entrepreneurs are responsible for establishing new job opportunities, which are subsequently fllled by small and medium-sized businesses, who are now the world's most important suppliers of employment. According to Burger (2021), South Africa's economy is presently at a crossroads, and the course it chooses in the near future will impact the country's future for decades to come.

Economic freedom for all is a necessary complement to the political freedom for all achieved during the great democratic revolution of 1994, and in order to make this a reality, they require an inclusive economy driven by a new generation of creative businesses.

Businesses that provide monetary services face strong competition from other providers of similar services in today's market. The astounding rate of technological advancement is directly responsible for the great majority of these developments. Despite the fact that the vast majority of flnancial institutions have embraced the technology revolution, these types of flrms face a number of problems. According to Bushe (2019), who cites Lings (2014:169), there appears to be a relatively high proportion of business failure among South African small to medium-sized enterprises. These organisations, which will be referred to as small to micro and medium businesses (SMMEs) in the following, are regarded to be small to micro and medium enterprises (SMMEs). It is anticipated that forty percent of all new enterprises launched in the country will fail during the flrst year, sixty percent will fail within the second year, and ninety percent will fail within the flrst ten years. These percentages are based on expert forecasts.

The new business issues, particularly with regard to flnancial service providers (FSPs), lending, and the management of accounts in need of recovery, are not so much new as they are distinctive in light of constantly altering customer expectations and a newly depressed economy. The severity of this risk is even larger than that of the pandemic. We no longer live in a sustainable society. According to Kunene (2008), before starting a new flrm, the entrepreneur must go through a series of steps known as the entrepreneurship process. Finding and analysing prospects, as well as raising startup capital, are all part of the process (Bygrave, 1997:2; Cornwall & Naughton, 2003:62). Once a company is up and operating, it's a never-ending cycle of opportunity identiflcation and strategic resource allocation decisions to pursue value-added opportunities (Glancey, 1998:18; Kodithuwakhu & Rosa, 2002:443).

South Africa, with an 80% Black population, is the world's most unequal society, with 10% of the population owning more than 85% of household wealth, according to the Thomas Piketty-backed World Inequality Lab, which also discovered that half of the country's population has more liabilities than assets (Njanja, 2022).

1.1. Who or what is a Financial Services Provider (FSP)?

The Financial Advice and Intermediary Services Act (37 of 2002) (FAIS) is the legal framework that regulates the day- to-day operations of a flnancial services provider (FSP) in addition to the contacts that FSPs have with their clients and consumers. Furthermore, customers may use the FAIS as a reference while having conversations with the FSP of their choice. One deflnition of a flnancial services provider is an organization that acts as a consultant for consumers' personal flnancial matters or offers personal flnance products such as insurance, investments, or loans (FSP). Authorisation of institutions providing flnancial services.

✓ Financial Services Providers (FSP's) will have to be licensed in terms of the Act and they will have to comply with certain prescribed fit and proper criteria. This could be an entity such as a large corporate who is also a product supplier or even an independent brokerage who operates as an SMME. However, in terms of section 7 of FAIS, no person (including juristic persons) will be able to act as an FSP, unless such person has been issued with a licence by the Registrar.

✓ An authorised financial services provider or representative may only conduct financial services related business with a person rendering financial services if that person has, where lawfully required, been issued with a licence for the rendering of such financial services and the conditions and restrictions of that licence authorises the rendering of those financial services, or is a representative as contemplated in this Act.

✓ In its application to become an authorised FSP, all relevant parties' details must be disclosed. For example, Key Individuals, Representatives, and details about the FSP itself.

✓ A licence may be granted subject to certain conditions and/or restrictions which results in categorisation of FSP's according to the type and level of service rendered.

Compliance with flt and proper requirements a er authorisation

An authorised financial services provider, key individual, representative of the provider and key individual of the representative must-

✓ continue to comply with the fit and proper requirements; and

✓ comply with the fit and proper requirements relating to continuous professional development.

II. INSURANCE INDUSTRY

Businesses in the flnancial services industry confront a number of key challenges, according to Strategy (2022). These issues include market instability, rule formulation, and competitive escalation. If flnancial institutions wish to maintain their market advantage and long- term profltability, they must constantly adapt to changes in their business.

Workers in the insurance business face a constantly changing and increasingly complex work environment (PWC, 2022). A flrm must have its transmitters tuned to signals of change coming from the outside world, be able to decipher these signals, and respond fast to either enhance or rethink its business model, or even change the information landscape of the industry in which it works. These are some of the most critical requirements for a company's success. All of these conditions must be met in order for a flrm to be successful. To be able to adapt, a flrm's transmitters must be tuned to the indications of change in its surroundings, and the business must be able to interpret the signals that the environment is delivering.

According to Semolic and Steyn (2018, August), the complexity of today's technologies, such as artiflcial intelligence, big data, and the internet of things, necessitates collaborative organisations specialising in their respective domains while still working together in a scalable and long-term manner. This is a necessity that demands collaboration across organisations.

III. BUSINESS FAILURE DEFINITION

Nemaenzhe (2010), citing Pretorius (2008:408), asserts that the concept of ""Enterprise failure" "often appears vague and ambiguous for research purposes. "In the world of entrepreneurship, there is no commonly agreed deflnition of SME failure among academics and practitioners. This makes it diThcult to foresee SMMEs failing and makes it considerably more diThcult to devise remedies to the problem. Many studies have been conducted in an attempt to deflne failure; nevertheless, the results of these studies are contradictory. Several of these assessments, for instance, focus on the concept of insolvency, which denotes the condition of being unable to pay obligations when they are due (Bushe, 2019).

Observations show that flnancial reporting indirectly helps to an organisation's flnancial stability. According to the paper, a lack of flnancial reporting awareness and insuThcient flnancial experience would jeopardise the flnancial viability of FSPs. Poor administrative resource management and a lack of reliable information and flnancial data have been highlighted as reasons for worry about flnancial reporting accuracy.

Numerous studies have been performed to deflne failure, but none have achieved an agreement. The bulk of these studies, for example, look at failure in terms of insolvency, which occurs when a corporation goes bankrupt and is unable to pay its creditors when their obligations become due and payable. Failure is deflned by the Thesaurus English Dictionary as "breakdown, halt, malfunction, crash, collapse, closure, bankruptcy, not a success, letdown, or disappointment." The word 'decline' is frequently used in SMME performance inquiries.

IV. SOUTH AFRICAN POLITICAL AND SOCIOECONOMIC CLIMATE

Kunene (2008), posits that South Africa is a country with a middle income, rapid economic growth, and extremely turbulent social and economic conditions (Morris & Zahra, 2000:92;3). This is due in part to the country's re-entry into the global economy following decades of foreign commerce and other restrictions (Luiz, 2001:55; Berry, Von Bottnitz, Cassim, Kesper, Rajaratnam & Van Seventer, 2002:1).

One of the important events demonstrating South Africa's capacity to expand at the largest level, according to Lings (2014:12), is the tremendous political transformations it was able to make in the April 1994 national elections, which marked the country's transition from apartheid to full democracy. South Africa gained liberation from apartheid control in 1994, marking the country's 20th anniversary as a democracy. Following many years of seclusion via targeted sanctions, its economy was opened up to the rest of the world as a result of the democratic transition.

4.1 Weak laws and rules from the government

Booysen (2007), points out that South Africans' different skill levels may be traced back to huge inequalities in the quality of their schooling. These inequities stemmed from the country's apartheid laws' discriminatory and segregative policies prior to 1994, which resulted in a subpar education and limited opportunities to gain skills.

4.2. Disengaged Leadership

Following the country's flrst democratic elections in April 1994, South Africans were forced to analyse the costs and consequences of apartheid in order to strive toward a more equal and just society (Mariotti & Fourie, 2014). As a result, the government was forced to create laws and implement rules to guarantee that persons from historically marginalised groups may fully participate in all elements of society, including positions of power, company ownership, and flnancial capital (Wöcke & Sutherland, 2008). The EEA deflnes "black people," "women of all groups," and "those with impairments" as members of the designated category, which excludes white men (de Beer et al., 2016).

According to Booysen (2007) and Nkomo (2011), the concept of cultures being established by the dominant group, combined with the visibility of lower order identities such as race and gender, has had a profound effect on South African organisations, resulting in white and male-dominated organizational cultures.

4.3 Using hiring managers as barriers to change

According to Coetzee (2015), human resources and managers are responsible for ensuring that people are productive and successful inside a flrm. Substantial differences in viewpoints have been demonstrated amongst the three social identity groups, altering the power dynamic and solidifying the groups' independent social identities inside the organization. Coetzee's (2015) designation of employees who have negative sentiments against designated groups inside organisations as experiencing interactional justice is helpful in tracking the concept's influence on the equitable treatment of all workers.

V. LACK OF FUNDING

In South Africa, there are many flrst-time entrepreneurs, and the vast majority of them have never pitched their business idea to a group of investors, written a business plan, or undertaken market research. Small business owners may lack the flnances needed to operate, and their credit scores may be insuThcient to qualify for loans.

The history of South Africa has resulted in cycles of social injustice and income inequality, aggravating the problems we are striving to overcome. The majority of South African small and medium-sized businesses are formed by those at the bottom of the socioeconomic scale. In 2018, 3.3 million of the 5.6 million micro, small, and medium-sized enterprises (SMMEs) in the country were categorised as "survivalist flrms."

To compound matters further, several South African flnancial institutions have a conservative culture. Banks and other lenders frequently refuse to flnance new enterprises because they are seen to be high-risk undertakings. While visiting a bank, the owner of a small business should be prepared to talk and have all of their documentation ready in order to illustrate the worth of their flrm in frequently accepted manner.

Various funding model concepts may emerge as a result of various methods of receiving and transferring monies. Enabling small enterprises to sell some of their shares to investors and raise funds through crowd-funding may be a smart idea. Similarly, banks should consider the formation of micro lending organisations, particularly in rural regions, so that individuals may obtain small loans to establish businesses.

Yet, more than a national strategy is required to address the crisis. Every municipality should have an electronic stock exchange where individuals may list their flrms, and there should be a grassroots movement where people work to reduce unemployment, especially in their local communities.

Financial i s olation h as be en sh ow n to h ave socioeconomic effects for residents, particularly those at the bottom of the economic pyramid. Financial exclusion is widespread in South Africa, with the poor bearing the brunt of the cost. According to Kirsten's (2006) study, current numbers from the yearly FinScope survey (FinScope, 2005) indicate that 53% (16.4 million) of South Africa's adult population is excluded from formal flnancial services and does not have a bank account.

Around 16,4 million people are denied credit or are unfairly marginalised. Individuals without access are almost entirely black, 49% live in rural areas, and 55% are women. According to Lekhanya (2010: 33), the most important stage in the life of a small business is determining its potential to grow soon after it is established. This also depends on the company increasing its product line, obtaining funding, and expanding its client base, all of which contribute to the company's growth and development.
Schoombee (2004), posits that commercial banks frequently do not cooperate with low-income employees, micro-entrepreneurs, and destitute persons known as "the unbanked" because it is too costly and not worth it. South Africa's "big four" banks, which control more than 80% of the market (South African Reserve Bank, 2002:4), are no exception. They have seriously considered entering this industry since the early 1990s. This is due in part to changes in the local political landscape.

The new government and its supporters contended that by refusing to serve black people in general, the big four were involved in the previous administration's discriminatory actions. Numerous banks have been put under pressure to remedy this problem. Because they feel they have adequate money to meet the black community's pent-up demand for loans, their focus has been on making their lending facilities more accessible.

According to Njanja (2022), the problem of unfairness in startup funding is not exclusive to South Africa, as Kenya's ecosystem, one of the continent's four largest marketplaces in terms of investment received, has a similar problem, with white entrepreneurs having an easier time obtaining cash.

VI. CHALLENGE WITH INFRASTRUCTURE

The availability of utilities such as water and electricity, as well as roads and other kinds of public transportation, is critical to the effective operation of any business. The great majority of flrst-time entrepreneurs start their businesses from their own homes. These entrepreneurs will be unable to produce products, supply services, or network with other company owners if they do not have access to dependable and competitively priced utility services. They may have trouble interacting with their clients and partners if they are unable to get to where they need to go. As previously stated, a fundamental impediment to the development and expansion of SMEs is a lack of suThcient resources (Ahwireng-Obeng & Piaray, 1999).

Accounting and legal services, according to a number of competent persons, should be included in the infrastructure of small businesses. Yet, South African company owners may not always have easy access to the aforementioned services. Long-term solutions to this problem are presently the major focus of South African legislators, who are striving to expand educational resources and enact laws to assist small and medium-sized businesses (SMMEs).

VII. MINIMAL INNOVATION

Most instances of innovation and learning, according to Kaplan and Norton (1992), may be traced back to the invention of new items and the reflnement of operational processes. The innovation and learning process predicts both freshly emerging flrm opportunities and evolving obstacles. The future of the organization and how it will evolve, innovate, and learn are inextricably linked in terms of innovation and learning. This is required for the flrm to succeed on a worldwide scale.

Nejab (2021), citing Estelami (2012), Sandor (2012), and the World Economic Forum (2012), stated that academics think the quantity of innovations launched in flnancial services over the past two decades has eclipsed all previous eras. Financial services innovation differs from that of other businesses in that it is intertwined with the economy, nearly every industry, and society as a whole. Nonetheless, in South Africa, many small enterprises are formed by unemployed individuals rather than those seeking new work prospects. Without su Thcient research and development, entrepreneurs may flnd it diThcult to predict whether new or old concepts will succeed in the real world. As a result, between 2020 and 2021, a small group of South African entrepreneurs exhibited tremendous innovation in achieving real growth and cash. Each budding entrepreneur should study these success stories and remain up to date on new ideas. According to researchers, flrms that can generate new ideas expand quicker than those that cannot.

VIII. PROBLEMS WITH HUMAN RESOURCES

South African small businesses struggle to locate skilled staff, notably in sales, flnance, and accounting. These companies are more exposed to market fluctuations, making it diThcult to retain staff. Financial service providers, on the other hand, have several challenges in running their operations, including risk management and compliance, as well as gaining and maintaining customers. To succeed, whether you are a well-established flnancial institution or a startup looking to disrupt the industry, you must stay on top of these challenges.

Nevertheless, many of these small business owners lack the knowledge required to draft employment contracts that safeguard the flrm if it runs into flnancial diThculties and is unable to pay its employees.

When it comes to recruiting the right people, this is the reality for both small and medium-sized businesses (SMEs) and their bigger rivals. Human resources is a critical department in small and medium-sized companies (SMEs), and the flrm's strategic execution is heavily relied on resource management - speciflcally, recruiting the right personnel with the necessary skill set to expand the business. When small and medium-sized businesses (SMEs) lack the necessary talent mix and skill set level, the concern variable suffers.

IX. KEEPING UP WITH REGULATION

The flnancial services sector of the economy is today subject to more strict regulations than ever before. Compliance expenses eat up a sizeable chunk of a bank's proflt margin. They are in charge of ensuring that systems are in place to respond to newly issued rules and standards when they become effective. Traditional banks must constantly analyse and improve their business processes in order to keep up with quickly changing industry standards, customer and shareholder expectations, and technology innovations.

To guarantee that a flrm complies with the various rules and regulations that apply to every element of the business, a signiflcant amount of administrative labor may be necessary. Even though meeting all of the criteria may be diThcult, the bulk of them have been enforced to ensure the safety of enterprises. When compared to other sectors of the economy, the flnancial services business is already subject to much more government regulation and monitoring. As one sector of the economy embraces new technology, the rules that govern that sector must also alter to accommodate the move. Despite the fact that monitoring and enforcing the law is becoming increasingly diThcult, the authorities are increasing the amount of effort they put into these tasks.

Organisations that provide flnancial services have no choice but to absorb the higher expenses associated with this practice in order to avoid the heavy penalties associated with noncompliance. Building controls to fulfll compliance standards is a diThcult procedure. Because staff members must combine data from a number of sources, compliance places a pressure on current resources.

Every major flnancial institution is actively investing in digital transformation initiatives to modernise its outdated infrastructure, improve the client experience, and increase overall eThciency. This is being done in response to the rising need for digitisation. As a result, flnancial institutions will have a higher need for technically proflcient personnel in the coming years, in addition to CEOs who can effectively manage change at the top level.

X. CONCLUSION

The high unemployment rate is a key contribution to the current condition of inequality. South Africa's unemployment rate is signiflcantly higher than that of other developing countries, and the proportion of unemployed young people is larger than 50%.

Inclusion will rise if more low-skilled jobs are developed to encourage labor force participation, particularly in the poorest areas. Education quality can be enhanced, which will assist boost employment prospects, and adequate transportation will make it easier for individuals to go to work centres. South Africa will need more fundamental adjustments in the future to achieve both robust and inclusive growth. The fundamental goal should be to create a business environment that is more conducive to the injection of private capital and the creation of new employment.

This necessitates improved governance, lower business costs, an increase in the degree to which markets for goods and services are open to competition, the authorisation of businesses to compensate employees based on their skills and productivity, and an increase in the eThciency of FPS service providers. Moreover, policies will be needed to support the establishment of opportunities to aid marginalised groups by enhancing the level of service given in education, healthcare, and transportation. This is because the existing level of service in these locations is insuThcient. The process of implementing change must become engrained in the minds of individuals working in the flnancial industry so that every single employee is on board with the endeavour. It is general known that even the most brilliant strategy would fail if not implemented professionally. Executives and managers, as well as the Human Resources department, must demonstrate their commitment to the process in order to successfully implement the change. It is critical to provide evidence of one's commitment by providing a clear story and implementation approach. To achieve this aim, persons in positions of leadership would need to change their attitudes regarding employment justice. This might be achieved through management training and critical discussion workshops, which are environments where leaders can examine the issues they encounter and cooperate to build strategies centred on flnding solutions for better change implementation. Management training and critical discussion workshops might assist. Furthermore, the beneflts to be realised for senior management help will result in strategic realisation for the sector as a whole.

Managers require a wide picture perspective and will operate more accurately if they have clear metrics. Execution success is seldom an accident. The right model will provide management with a clear roadmap of the considerations they will confront while attempting to navigate strategy execution.

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