

What Impact Do Economic Issues Have on the Sustainability of Small, Medium and Micro Entrepreneurs?

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The article presents evidence from SMME entrepreneurs regarding their experiences on economic issues which impact negatively on their sustainability. The inception of the democratic government resulted in the fast boom of small, medium and micro enterprises (SMMEs) due to the introduction black economic empowerment (BEE) initiatives. Using structured questionnaires, the data were collected by personally visiting the SMME entrepreneurs. Empirical evidence shows that indeed economic issues are drastically affecting their chances of sustenance. The findings present valuable information that policy makers can use to address the issues since entrepreneurs themselves will find it difficult to come with long term solutions.

INTRODUCTION

Small, Medium and Micro Enterprises (SMMEs) in Africa are regarded as crucial in the role they play in the creation of employment and above all the contribution to economic growth. Since 1994 the South African economy has experienced a number of challenges in its bid to reintegrate into the global economy. As a result of apartheid, most of the policies had to be reviewed to be more inclusive of all the community of South Africa. This was however characterized by blacks particularly Africans not allowed to have businesses in towns. Since 1995, the government has been actively promoting small businesses in order to achieve the objective of economic growth through competitiveness, employment generation and income redistribution. More than 80% of all businesses in South Africa are described as small businesses. Small businesses contribute about 40% of all economic activity in the country (Rankhumise, 2010:p8). According to Ladzani, (2010:p68) more than 50% of all South Africans are employed in the small business sector. The sector is therefore essential in promoting, achieving economic growth and development as well as the creation of wealth and employment. The programme as it is aimed at promoting blacks to participate in the mainstream economy of the country and afford them the opportunities that they were previously denied and in this regard the majority of those engaged in the SMME sector are blacks.

In the quest to fast track blacks to form part of South African conglomerates, Black Economic Empowerment (BEE) was introduced with the intention of encouraging people to start their own businesses. The success of the South African economy is intrinsically linked with the success and sustainability of their businesses. Because of that, a special call has been made to black people to play a

role of establishing their own businesses and tender for government work. However, a number of critical issues impacting on the success of small businesses in South Africa especially the blacks have been raised by community leaders and researchers. Dutton and Jackson (1987) state that the assumption underlying most organizational theory, research and practice is that the short-term effectiveness and long-term survival of organisations are determined by the actions they take in response to their external environment. Currently, most discussions on small business in South Africa are high on the government agenda and revolve around the need to promote the small, medium and micro enterprises (SMMEs) activities as detailed in the National Small Business Act of 1996. As an indication of the seriousness of the government to promote SMMEs, a number of support institutions were established, namely Ntsika Enterprises Promotion Agency (NEPA), which is a nonfinancial support agency, Khula Finance Enterprises Finance Limited, which is a wholesale financial mobilization and credit guarantee institution, and Small Enterprise Development Agency (SEDA), which is an institution focusing on the support and promotion of enterprises to reach a greater variety of enterprises, particularly those located in rural areas. SMEs play a significant role in the business system of both developed and developing economies. This article is grounded on one factor of the PESTLE model namely economic issues.

Due to the current economic meltdown locally and globally, businesses are struggling to make ends meet as a result of the fact that consumers do not have adequate money to buy and high interest rates also affect the businesses negatively. This situation however could further create a serious challenge to the SMMEs to sustain their survival and as such they are likely to face bleak future. To date as a result of recession, many businesses were closed, where more than 20 factories have already shutdown and about 4 700 workers losing their jobs (Ntingi, 2008: p12) The economists are of the opinion that the situation may yet get worse as the meltdown in global markets and the high interest rates continue to bite and SMMEs are fundamentally affected in terms sustaining their operations. Small businesses in South Africa, particularly those operated by blacks are operating in a rapidly changing environment. Small businesses are more vulnerable to changes in the economic environment than large businesses because they are unable to respond due to lack funds to respond to the changing environment.

AIM AND OBJECTIVES OF THE STUDY

The broad aim of the study is to establish the economic issues that affect sustainability of SMMEs *inter alia* with inflation, interest rates, and exchange rates. The objectives for the study are set as follows:

- (1) To establish the economic factors impacting negatively on the sustainability of SMMEs.
- (2) Recommend appropriate policies that could enhance the viability of small business in Mamelodi.

RESEARCH DESIGN AND METHODOLOGY

To achieve the set objectives for the study, practicable research methodologies of a quantitative survey were employed. A quantitative approach was used with the intention of determining challenges created by economic issues facing entrepreneurs in running their business successfully and become sustainable. The rationale for quantitative research is “testing a theory composed of variables, measured with numbers and analyzed with statistical procedures, with the view of determining the predictive generalizations of the theory” (Leedy and Ormrod, 2005: p89).

POPULATION AND SAMPLING

The population in this study consisted of small business owners from Mamelodi municipality. A convenient sampling was used to select participants from the list that was provided by the municipality. According to the list there are 350 businesses operating in the area. Due to time and financial constraints only 59 questionnaires were issued. A convenient sampling approach was used to select 59 small business owners from Mamelodi in Gauteng to participate in the study.

ETHICAL CONSIDERATION

Clear guidelines were given on how to complete the questionnaire. Prior to obtaining informed consent, the aim of the study and the process of data collection were explained to the respondents so that they could choose whether to participate or not. Respondents were also informed that confidentiality and anonymity will be maintained since no personal identifiers were used.

DATA COLLECTION AND ANALYSIS

Primary data were collected through a structured questionnaire which was developed by the researchers. The survey consists of a developed questionnaire. According to Huysamen (1994:p36), a survey questionnaire may be used to obtain the biographical details and opinions of respondents and as such it was perceived to be the appropriate tool for the study)

A questionnaire was developed for data collection purposes mainly from relevant SMME literature, including the National Small Business Act of 1996. The questionnaire consisted of three sections: biographical, small business activities and perceptual data. A 5-point Likert scale was used to gather the data consisting of strongly agree, agree, uncertain, strongly disagree and disagree. The questionnaire consisted of questions pertaining to economic issues impacting on the sustainability of small businesses. In each statement respondents had to indicate their degree of agreement or disagreement with the content.

DISCUSSION OF THE FINDINGS

Sample Realisation

The survey was conducted in the Mamelodi municipality area on 59 small business owners. The respondents were asked to indicate the factors that affect their businesses negatively. Of the 59 questionnaires issued, 50 were returned. This made a response rate of 85%. The gender distribution of the respondents consisted of 32 (64%) males and 18 (36%) females. The respondents are from the following racial groups: African 38 (76%), whites 2 (4%), Indians 4(8%) and colored's 6 (12%). The participants were from the following sectors: food outlets 12 (24%), general dealers 21 (42%), garages 3 (6%), liquor outlets 4 (8%) and other 10(20%). A list of these businesses operating in the Mamelodi was obtained from the Municipality and the list was used as the base line for the inclusion in the study. The inclusion criteria were: a business should be registered, being in operation for three years and above.

DISCUSSION

The 5-point scale on all items was transformed into a 3-point scale indicating agreement, uncertainty and disagreement. In other words, "strongly agree" was merged with "agree" and "strongly disagree" with "disagree". The rationale for this merging was that the researchers were of the view that a tripolar dimensional approach of agree-uncertain-disagree would provide stronger, yet simpler explanations of the perceptions of respondents. Owing to the small sample size, only descriptive and non - parametric data analysis procedures were done for this specific study (Mazzocchi, 2008). For the purpose of this article, data is only being presented in percentages.

TABLE 1
ECONOMIC ISSUES IMPACTING NEGATIVELY ON THE BUSINESSES SURVIVAL

Economic Issues	Strongly Disagree		Neutral	Agree Strongly	
	1	2	3	4	5
1. Exchange rate volatility	0	0	25	15	10
	0%	0%	50%	30%	20%
2. Increase in interest rates	0	0	10	25	15
	0%	0%	20%	50%	30%
3. Increased inflation	0	0	15	20	15
	0%	0%	20%	50%	30%
4. Cost of transport	0	0	10	25	15
	0%	0%	20%	50%	30%
5. Banking costs	0	0	10	25	15
	0%	0%	20%	50%	30%
6. Relaxation of exchange controls	0	0	25	15	10
	0%	0%	50%	30%	20%
7. Lack of funds	0	0	0	25	25
	0%	0%	0%	50%	50%
8. Competition from imports	0	0	15	25	10
	0%	0%	30%	50%	20%
9. Recession	0	0	10	15	25
	0%	0%	20%	30%	50
10. Communication costs	0	0	26	14	10
	0%	0%	52%	28%	20%

The above table reflects the respondents' perceptions regarding how economic issues affect the sustainability of their businesses and each respond is discussed below.

EXCHANGE RATE

Based on the findings in table 1 above, 50% of the respondents agreed that exchange rate changes had a negative impact on the success of their businesses. The rand has depreciated substantially since the end of apartheid. By the end of 2003, it lost about 50% of its value. Most of this depreciation reflected a higher inflation rate in South Africa than that of its trading partners. In real effective terms, the rand went down by almost 15% between 1994 and the end of 2003, having peaked at 35% at the end of 2001. The

currency experienced considerable volatility during this time, as some crisis patterns developed in 1998 and in 2001, with sudden depreciation followed by a recovery. Fluctuations in the real exchange rate may be of great concern to policymakers and businesses. They may have a disruptive impact on trade flows if hedging is costly or incomplete. They may also deter investment decisions associated with such trade flows.

The rand has slumped over 30 percent against the dollar in 2008, due wave of risk aversion as global economies grapple with the fall-out from a financial crisis with its roots in the U.S. mortgage market. The rand is unlikely be rewarded from a cut in interest rates in the current climate. Nevertheless, the outlooks for the global economy and South Africa have continued to darken since then. A tsunami of weak economic indicators in recent weeks has bolstered the case for the bank to begin cutting rates at its December 2007 meeting. This is imminent considering the car repossessions and looming job retrenchments anticipated. It appears that the Reserve Bank's Monetary Policy is left with little choice but to cut the interest rates to build economic confidence. It is therefore believed that the South African Reserve bank will take its cue from its major international peers who recently cut their interest rates. It emerged that the European Central Bank cut their interest rates by 2.5% whilst Bank of England reduced their interest by 2%.

INCREASE IN INTEREST RATES

The majority (80%) of the respondents felt that an increase in interest rates and inflation did on the whole affect small businesses and this essentially means that when interest rates are high, consumers may not have enough money to spend. News that growth slowed to 4,5% in the second quarter of 2007 is unlikely on its own to convince the South African Reserve Bank (SARB) to keep interest rates steady, given its mandate to fight inflation. But the cumulative three percentage point increase in lending rates since June 2007 is just starting to bite, and there is still a good chance that rates will be raised again in 2008 to curb price pressures. Economic data is confirming that the South African economy is taking strain from falling domestic demand, a trend which is exacerbated by the weakening global landscape. The response in currency markets to the rate cuts shows that foreign exchange traders are no longer rewarding the currencies of central banks taking aggressive easing measures.

INCREASED INFLATION

The majority (80%) of the respondents felt that an increase in inflation on the whole affect small businesses. Consumer inflation excluding interest on mortgage bonds (CPIX) - the measure used by the SARB for its inflation target - is expected to surge to 9,4% year-on-year in February 2008 from 8,8% a month ago, an I-Net Bridge survey found. This will be the eleventh month running that CPIX has been above the 6% upper target limit and will be significantly higher than the 4,9% seen a year ago.

Stats SA attests that food inflation had climbed to 13,4% year-on-year, continuing its upward trend. Energy prices were also expected to remain key pressures for inflation after a 6% jump in domestic fuel prices in December. It does not deter the fact that inflation could rise even further by the time the next set of figures comes out. Price pressures are strongly evident in this economy. The annual increase of 7,2% in the CPI for the historical metropolitan areas was mainly due to relatively large annual contributions in the price indices for food (+2.7 percentage points), housing (2.0), medical care (0.5), household operations (0.4), transport (0.4), education (0.4) and fuel and power (0.3).

COST OF TRANSPORT

As a result of changes in the political context that have opened South Africa to the world, economic reality for South Africa has evolved dramatically in the last five years. For the first time in decades, South Africa has been exposed to the forces of globalization and, as a result, has become far more linked into

patterns occurring in the larger global economy. This manifests itself in nearly every aspect of the economy, from currency valuation to transport technologies.

LACK OF FUNDS

South Africa has limited financial resources and this has been confirmed by 100% of the respondents who indicate that funding is a problem. In most instances, the commercial banks are not willing to provide funding because most of the entrepreneurs do not have collateral securities. Findings confirm what (Rankhumise, 2009; Mutezo, 2005) found that banks are still doubtful in financing SMMEs due to the fact that they are deemed to be high risk borrowers. Funds are essential for start up or the expansion of the operations.

COMPETITION FROM IMPORTS

Based on the findings from table 1 above, 100% of the respondents saw competition from imports as a barrier to their business. The South African economy remains relatively concentrated, especially in upstream production sectors such as iron and steel, paper and chemicals, and inputs such as telecommunications and energy. In some cases market structure negatively influences the possibilities of downstream production or service industry development. Competition law and industrial policies need to be strengthened to counteract these factors. The mediocre performance of the small, medium and micro business sector in terms of contribution to GDP and employment partly arises from the sub-optimal regulatory environment.

RECESSION

From the survey findings, it emerged that 100% of the respondents agreed that recession is affecting them. The impact is in such a way that some of the business may not survive in the closer future and some is negotiating with the employees for retrenchment options. The situation needs government intervention such as stimulus package to rescue the badly affected businesses.

COMMUNICATIONS COSTS

All respondents (100%) agreed that communication can be a huge cost to small businesses. South Africa's established and sophisticated indigenous information communication and technology (ICT) and electronics sector comprises more than 3 000 companies and was ranked 22nd in 2001 in terms of the total worldwide information technology (IT) spend. Growing at a rate of 50% per annum and fourth-fastest growing cellphone market in the world, the South African GSM cell phone market has three operators: Vodacom, MTN and CellC. The cost relating to communication is believed to be high considering the fact that most of the entrepreneurs are using cell phones.

LIMITATIONS OF THE STUDY

The study focused only in the Mamelodi municipality and as such the researchers are unable to claim any generalization of the findings. Since participation was said to be voluntary, it can be that there may have been some differences in responses with those who did not choose to complete the questionnaires. Finally, another study could be important on a broader scale preferably in the entire Gauteng as a province or include SMMEs in other provinces with the view of exploring further the findings of this specific study so as to allow for generalization.

CONCLUSIONS

The discussion in this paper articulated the sentiments from SMME owners in the Mamelodi municipality regarding the economic factors that are affecting their businesses negatively. It is posited in this article that economic factors are regarded as major obstacles that affect the success of the businesses. The current economic outlook in the country is not good. The exchange rates, interest rates and competition are deemed to be affecting the success of the SMMEs negatively. These particular factors are experienced worldwide, and as a result many businesses are unable to survive. It would be appreciated if the central bank in South Africa can consider the reduction of interest rates with the aim of building business confidence. It is arguable that though the environment is conducive to start a business, exchange rates and interest rates still remain a challenge for the businesses. This could result in a situation where owners will inflate prices drastically and they will be compelled to retrench their workers and ultimately close their operations. It could be argued that economic factors have negative impact on the survival of the businesses.

In conclusion, it is noted from the findings of this specific study that economic issues are major barriers for the businesses to be sustainable and the owners have no control whatsoever on these issues. Despite the South African central bank's attempt to rescue the situation by cutting interest rates, but it is still difficult to cope with the situation as most of the businesses were highly indebted. The viable rescue plan could be the introduction of stimulus packages from the government.

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