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Revisiting the Economic Factors which Influence Fast Food South African Small, Medium and Micro Enterprise Sustainability

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In order to stimulate both developing economies and developed economies around the globe policy makers have, over the years, focused their attention to Small, Medium and Micro Enterprises (SMMEs). These business entities are often regarded as the lifeblood of economies around the globe however SMMEs are reported to have high failure rates. For example, in a South African dispensation, the failure rate of SMMEs is considered to be among the worst in the world as approximately 75% fail within a period of 42 months after opening. Through research in the early-2000s, the cause of the excessive South African SMMEs failure rate has been pinned on a plethora of micro-economic factors and macro-economic factors. Over the years the list of economic factors which adversely influence the sustainability of South African SMMEs have not changed drastically, which may well probably explain the high failure rate of these business entities in more recent times. Thus, for this paper, empirical research was conducted to ascertain the extent to which 24 economic factors adversely influence the sustainability of South African SMMEs. Quantitative data were obtained from 116 members of management of South African SMMEs and stemming from the results, it was found that these economic factors still have a reasonable adverse influence on the sustainability of these business entities.

Keywords: *Small Medium and Micro Enterprises, SMMEs, South Africa, Sustainability, Economic factors*

JEL Classification: *E0, M20*

1. Introduction

In South Africa, Small, Medium and Micro Enterprises (SMMEs) can be viewed as independent business entities, which are owned by at least one owner, which operates in any sector and/or sub-sector, while simultaneously adding socio-economic value to the national economy as a whole (South Africa, 1996). These business entities are often referred to as the lifeblood of the national economy (Painter-Morland and Dobie, 2009; Naicker et al., 2017) due to their potential to assist with the attainment of core socio-economic objectives which include, *inter alia*, the creation of employment opportunities, the distribution of wealth and the

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alleviation of poverty (Kesper, 2001; Jili *et al*., 2017; Odendaal, 2017). According to prior research (Department of Trade and Industry, 2013; Ngary *et al*., 2014; Gordon *et al*. 2014; Bruwer and Coetzee, 2016) South African SMMEs are reported to employ between 56% and 80% of the national work force while concurrently contributing at least 30% to the national Gross Domestic Product (GDP).

Notwithstanding the importance of South African SMMEs to the national economy, previous research studies (Fatoki and Smit, 2011; Ramukumba, 2014; South African Reserve Bank, 2016) suggest that these business entities are not attaining their legally prescribed socio-economic objectives to a great extent. This view is substantiated by the phenomenon that at least 70% of South African SMMEs are believed to fail within a period of 42 months after starting operations (Venter *et al*., 2003; Fatoki, 2012; Small Business Project (SBP), 2013; Herrington *et al*., 2015; Lekhanya; 2015; Bruwer and Van den Berg, 2017). To make matters more perplexing, the statistics pertaining to the SMME failure rate in South Africa is deemed to be one of the worst in the world (Fatoki and Smit, 2010; Mafini and Muposhi, 2017).

Probable reasons for the high failure rate of South African SMMEs have been researched over the years (Shapiro, 2008; Winks, 2008; Lim, 2010; Bruwer *et al*., 2013) and, largely, reasons pertain to the influence of economic factors. Economic factors are those factors which are cultivated by a harsh economic environment which, in turn, has a direct influence on the economic well-being of both natural persons and non-natural persons in an economy, over which such persons have little and/or no control over (Winks, 2008; Bruwer and Van den Berg, 2017). The economic environment of a country refers to the overall well-being of a country and takes into account a combination of economic indicators such as employment, income, inflation, and interest rates (Business Dictionary, 2017).

According to previous research studies (Van Eeden *et al*., 2003; Mabesele, 2009; Siwangaza, 2013; Lekhanya and Visser, 2016; Sitharam and Hoque, 2016; Sifumba *et al*., 2017) it becomes apparent that the economic factors, as identified in the early-2000s, which were reported to adversely influence the overall sustainability (According to Hopkins (2012), sustainability pertains to the achievement of relevant economic objectives, social objectives and/or environmental objectives by a business entity) of South African SMMEs, has remained largely unchanged over the years. This is quite disconcerting as one would expect the sustainability of South African SMMEs to improve with the identification of these economic factors however, the possibility exists that these business entities do not properly manage economic factors and their associated risks. Thus, for this study, the main aim was to ascertain the extent to which the sustainability of South African SMMEs is adversely influenced by the economic factors which were identified during the early-2000s, among other.

For the remainder of this paper, discussion takes place under the following headings: 1) research design, methodology and research methods, 2) literature review, 3) results and discussion, 4) managerial implications, 5) recommendations, and 6) conclusion.

2. Research Design, Methodology and Research Methods

This study was empirical in nature and constituted survey research. Moreover, this study was quantitative in nature and fell within the positivistic research paradigm as data were collected from 116 members of management of South African SMMEs, all of whom had to adhere to relevant delineation criteria, through means of a questionnaire. The questionnaire comprised five sections, which consisted mainly of closed-ended questions. All data were collected from respondents through means of non-probability sampling methods through using a mixture of purposive sampling and convenience sampling. In order to justify a valid response, each respondent had to adhere to the following delineation criteria:

- Each respondent had to be regarded as an owner and/or manager of his/her SMME.
- Each SMME should have operated in the fast food industry.
- Each SMME should have been regarded as a non-franchised business entity.
- Each SMME should have adhered to the formal definition of an SMME as per the Small Business Act No. 102 of 1996.
- Each SMME should have employed fewer than 50 full-time employees.
- Each SMME should have been classified as a sole trader or partnership.
- Each SMME should have been in existence for at least two years.
- Each SMME should have operated within the perimeters of the Cape Metropole.

3. Literature Review

Many developed countries around the world consider SMMEs as the cornerstone of their respective economies. In recent times, and for example, SMMEs in the United States of America have been responsible for almost 67% of new jobs created in the private sector (Office of the United States trade representative, 2017); while in Australia, these business entities have been reported to contribute 70% to the labour force (Creighton, 2012). In South Africa, the socio-economic value added by SMMEs is also exceptional as they contribute at least 30% to the national GDP and provide employment opportunities to at least 56% of the national labour force (Jones, 2016; Banking Association South Africa, 2017; Smit, 2017).

Notwithstanding, the notable contributions of South African SMMEs, these business entities have been reported to have one of the highest failure rates in the world (Smit and Fatoki, 2012); justified by the weak sustainability of South African SMMEs. Consequently, various reasons have been cited for this alarming failure rate and economic factors, among other reasons, have been found to be at the forefront of these reasons (Ayandibu and Houghton, 2017).

For the remainder of this section, discussion takes place under the following sub-headings: 1) background of South African SMMEs, and 2) economic factors affecting South African SMMEs.

3.1. Background of South African SMMEs

Due to the menacing economic problems and social problems that faced South African during the early-1990s, national government officially recognised SMMEs during the course of 1996 as a pragmatic solution (Orkin, 1998; Beall *et al.*, 2000; Amra *et al.*, 2013; SBP, 2014) through the implementation of the National Small Business Act No. 102 of 1996 (South Africa, 1996). South Africa inherited many problems from the Apartheid, and amongst them were high levels of inequality, poverty and unemployment, especially amongst the black population (Church, 2016). Over the years South African SMMEs have received much attention and support from government (Smit, 2017), and in recent times the importance of these business entities was further echoed through the establishment of the Department of Small Business Development during the course 2014 (Bureau for Economic Research, 2016).

Using the above as a basis, it is of no surprise that the number of South African SMMEs has increased tremendously, from an estimated 2 000 000 in 2006 (Department of Trade and Industry, 2008) to an estimated 6 000 000 in 2010 (FinScope, 2010; Odendaal, 2017) and rising even more post-2010. To place the number of South African SMMEs in perspective, research shows that 90% of all business entities operating in South Africa can be described as SMMEs (Mouloungui, 2012). Hence it can be inferred that, beyond reasonable doubt, South African SMMEs do play a pivotal role in the stimulation of the economy.

Notwithstanding the above the overall "performance" of these business entities has not matched up to national government's expectations (Chimucheka, 2013; Zulu, 2014; Tsele, 2015; Donga *et al.*, 2016). Taking into account only the metrics (poverty and inequality) that are related to the legally imposed objectives these business entities, it becomes evident that South African SMMEs have not achieved their legally imposed objectives to a large extent. Poverty can be measured by the poverty ratio, which represents the proportion of the population that is living under the minimum monthly amount that a person needs for daily survival (World Bank, 2014). South Africa's poverty ratio has been on the rise since 1995, and it stood at 54% in 2015 (World Bank, 2014; Grant, 2015; Nicolson, 2015). Inequality pertains to the equal dissemination of wealth, and is measured by the Gini index, which ranges from 0 (absolute equality) to 1 (absolute inequality) (Lehohla, 2014). Similar to the poverty ratio, the Gini index has been on the rise since 1995. It stood at 0.77 in 2014, which is the last time it was officially measured (Atkinson and Morelli, 2014; Statistics South Africa, 2014; Clarno, 2017).

The weak sustainability of South African SMMEs is further alluded by an unemployment rate which stood at 27.1% in the last quarter of 2016 – the highest national unemployment rate since 2004 (Statistics South Africa, 2016; Trading Economics, 2016). Past studies (Fatoki, 2014; Mafoyane, 2015) have linked the weakened socio-economic wellbeing of South Africa to the weakened sustainability of South African SMMEs; hence clear tangent planes emerge that empirical solutions need to be provided to South African SMMEs to enhance their overall sustainability to, in turn, better stimulate the national economy.

The above view is placed in perspective when taking into account the business discontinuation rate of South Africa. Although low when compared to other Sub-Saharan African countries, the business discontinuation rate of South Africa was 10% in 2016 (Herrington and Kew, 2017). In other words, one out every ten SMME discontinued operations during the course of 2015 either by selling, shutting down, or otherwise discontinuing its relationship(s) with its respective members of management (Singer *et al.*, 2015). This view is further supported by previous research studies (JTB Consulting, 2016; Burger, 2016) where it was found that 71% of South African SMMEs start-ups fail in their first year of operation. Thus, it becomes even more apparent as to why South African SMMEs have one of the highest failure rates in world (Chiliya and Lombard, 2012; SBP, 2014; Bruwer and Coetzee, 2016).

3.2. Economic Factors Affecting South African SMMEs

The link between economic factors and South African SMME sustainability has been researched for many a year. According to previous studies (Abor and Quartey, 2010; Sitharam, 2014; Kruger *et al*., 2015; Bruwer and Van den Berg, 2017) an array of economic factors have been outlined which are “blamed” for the weak sustainability of South African SMMEs. More often than not, these economic factors are divided into two broad categories namely that of micro-economic factors and macro-economic factors (Kraja and Osmani, 2015). According to Hunjra *et al*., (2014) micro-economic factors refer to the internal variables affecting business entities, over which members of management have some control over (at least); macro-economic factors refers to external variables that affect the whole economy, including its natural residents and non-natural residents, and cannot be controlled by a members of management to a large extent (Ngary *et al*., 2014).

As previously mentioned, the economic factors which adversely influence South African SMMEs have been researched since the early-2000s. The most recurring economic factors (from studies conducted after the early-2000s) are listed in Table 1 (Chandra *et al*., 2001; Lewis, 2001; Wolf, 2001; Gumede and Rasmussen, 2002; Clover and Darroch, 2005; Rogerson, 2005).

***Table 1**. Economic factors identified to adversely influence SMME sustainability in the early-2000s.*

Macro-economic factors	Micro-economic factors
Lack of management skills;	Burdensome government regulations (tax and labour);
Lack of finance;	High interest rates;
Limited access to credit;	Inadequate infrastructure development;
Lack of marketing skills;	Unreliable supply of electricity;
Insufficient product demand;	Unreliable supply of water;
High labour turnover;	Stiff competition;
Size of business;	Lack of information and communication technologies;
Location of business;	Lack of government support;
Decreased profits;	High levels of crime;
Lack of information about government support.	High unemployment rate;
	Excessive bureaucracy

Considering that the above economic factors were identified during the early-2000s, one would expect South African SMMEs to be sustainable by now since approximately 10 years have passed for solutions to be discovered to help these business entities to overcome problematic economic factors. Unfortunately the current weak South African SMME sustainability rates allows for the inference to be made that the South African economic environment has changed for the worse, meaning that economic factors may have become less controllable and/or manageable for these business entities.

4. Results and Discussion

Albeit the fact that all respondents and their respective SMMEs adhered to the strict delineation criteria, respondents were asked an array of questions pertaining to demographical matters. When respondents were asked key demographical questions about themselves, the following was mentioned:

– <u>Position in SMME</u>: 67.25% were managers, 26.27% were owners and 6.035 were owner-managers.

When respondents were asked key demographical questions about their SMMEs, the following was mentioned:

– <u>Number of employees employed</u>: 51.7% employed between 0 and 5 employees, 20.7% employed between 6 and 10 employees and 27.6% employed between 11 and 50 employees
– <u>Classification</u>: Using the number of employees employed as basis; 51.7% were micro enterprises, 20.7% were very small enterprises and 27.6% were small enterprises.
– <u>Number of years in existence</u>: 52.6% had been in existence for 5 years or less, 27.6% had been in existence for between 5 years and 10 years, and 19.8% had been in existence for more than 10 years.

Thus, taking into account the above, the average respondent was a manager. In turn, the average SMME of respondents was a manager of a very small business entity, with 9.77 full-time employees, while being in existence for 7.18 years.

In order to determine the perceived financial sustainability of sampled SMMEs, respondents were asked to provide their agreement in respect of statements which related to their respective SMMEs' profitability, liquidity, solvency and efficiency. To achieve this, a four-point Likert scale (1 = strongly disagree, 2 = disagree, 3 = agree, 4 = strongly agree) was used, and each statement started with the following base sentence: "My business is faced with the following problem:" A summary of the results is presented in Table 2.

***Table 2**. Perceived financial sustainability of sampled SMMEs*

My business is faced with the following problem:	**Disagreement**	**Agreement**	**Median score**	**Mean score**	**Standard deviation**
Weak business profitability (weak profits)	44.90%	55.10%	3	2.6	0.86
Weak business efficiency (takes long to make money)	56.10%	43.90%	2	2.4	0.80
Weak business liquidity (little cash on hand)	59.50%	40.50%	2	2.4	0.82
Weak business solvency (more liabilities than assets	63.80%	36.20%	2	2.2	0.84

From the table above, only weak business profitability has a mean score that is above the neutrality point of 2.5 (synonymous with "neutral"). Stated otherwise, these business entities agreed to have weak business profits (55.10% of the time). However, these businesses did experience positive business profits (44.90% of the time). The majority of respondents did not perceive their businesses as having weak business efficiency (56.10%), weak business liquidity (59.50%), and weak business solvency (63.80%). However, these business entities experienced weak business efficiency (43.90% of the time), weak business liquidity (40.50% of the time), and weak business solvency (36.20% of the time. Stemming from the above, it can be inferred that these SMMEs had moderate financial sustainability.

Respondents were asked to provide their level of agreement of statements through means of a four-point Likert scale (1 = strongly disagree, 2 = disagree, 3 = agree, 4 = strongly agree). Each statement started with the following base statement: "The following economic factors negatively affect my business' sustainability:" For the sake of better presentation, all "strongly disagree" and "disagree" responses were totaled under "disagreement" while all "agree" and "strongly agree" responses were totaled under "agreement" A summary of the responses are presented in Table 2.

***Table 3**. Economic factors affecting the sustainability of sampled SMMEs*

The following economic factors negatively affect my business' sustainability:	**Disagreement**	**Agreement**	**Median score**	**Mean score**	**Standard deviation**
Cost of electricity	17.20%	82.80%	**4**	**3.3**	**0.86**
Inflation rates	16.40%	83.60%	**3**	**3.1**	**0.81**
Purchase prices from suppliers	20.70%	79.30%	**3**	**3.1**	**0.90**
Stiff competition	23.30%	76.70%	**3**	**3.1**	**0.93**
Difficult access to finance (external funding)	29.30%	70.70%	**3**	**3**	**1.04**
Unemployment rates	37.00%	63.00%	**3**	**2.9**	**0.91**
Labour costs	32.80%	67.20%	**3**	**2.8**	**0.97**
Interest rates	34.50%	65.50%	**3**	**2.8**	**0.95**
Crime	36.20%	63.80%	**3**	**2.8**	**1.06**
Cost of water	37.10%	62.90%	**3**	**2.8**	**1.11**
Excessive legislation, rules and regulations	41.30%	58.70%	**3**	**2.7**	**0.97**
Size of business (capacity to meet demand)	42.30%	57.70%	**3**	**2.7**	**1.00**
Availability of substitute products and/or services at cheaper prices	43.10%	56.90%	**3**	**2.6**	**0.81**
Lack of adequate credit facilities	50.90%	49.10%	**2**	**2.5**	**0.88**
Low demand for products and/or services	55.10%	44.90%	**2**	**2.4**	**0.89**
Taxation	52.60%	47.40%	**2**	**2.3**	**1.07**
Unreliable supply of raw materials	58.60%	41.40%	**2**	**2.3**	**0.92**
Ineffective marketing	58.60%	41.40%	**2**	**2.3**	**1.00**
Rapid change in technology	62.10%	37.90%	**2**	**2.3**	**0.98**
Unproductive employees	57.70%	42.30%	**2**	**2.2**	**1.12**
Bad service quality	61.20%	38.80%	**2**	**2.2**	**1.05**
Location of business	62.90%	37.10%	**2**	**2.2**	**1.04**
Bad debts (customers not paying)	62.10%	37.90%	**2**	**2.1**	**1.11**
Bad product quality	68.10%	31.90%	**2**	**2.1**	**1.05**

From the table above, a total of 13 economic factors had a mean value greater than the neutrality point. These economic factors were: 1) the cost of electricity (mean score of 3.3), 2) inflation rates (mean score of 3.1), 3) purchase prices of suppliers (mean score of 3.1), 4) stiff competition (mean score of 3.1), 5)difficult access to finance (mean score of 3.0), 6) unemployment rate (mean score of 2.9), 7) labour costs (mean score of 2.8), 8) interest rates (mean score of 2.8), 9) crime(mean score of 2.8), 10) cost of water (mean score of 2.8), 11) excessive legislation, rules and regulations (mean score of 2.7), 12) size of business (mean score of 2.7), and 13) the availability of substitute products and/or services at cheaper prices (mean score of 2.6). Moreover, the level of agreement for all 13 economic factors range between 56.90% and 82.80% – serving as evidence that these economic factors did indeed have an adverse influence on the perceived sustainability of sampled South African SMMEs. Out of 13 economic factors which were found to have an adverse influence on the sustainability of sampled South African SMMEs, 10 of them were identical to the list of economic factors which were identified during the early 2000s, namely: 1) cost of electricity, 2) stiff competition, 3) difficult access to finance (external funding), 4) unemployment rates, 5) labour costs, 6) interest rates, 7) crime, 8) cost of water, 9) excessive legislation, rules and regulations, and 10) size of business (capacity to meet demand).

Possible reasons why the above 10 economic factors are still adversely affecting South African SMMEs are inter alia, South African SMMEs are not aware of economic factors affecting their operations, South African SMMEs are aware of the economic factors affecting them – but are unable to manage them, South African government is not aware of the economic factors affecting SMMEs, and/or South African government is aware of the economic factors affecting SMMEs – but has not been able to improve the economic environment. Therefore, the inference can be made that South African SMMEs, together with the South African government, have not been successful in dealing with these economic factors since the early-2000s – two decades after the formal recognition of these business entities.

5. Discussion and Conclusion

5.1. Conclusion

Despite their paramount importance, South African SMMEs have one of the highest failure rates in the world. Despite the numerous studies conducted since the early 2000s, citing the causes of South African SMMEs failure, these business entities still have weak business sustainability - owing to high failure rate. Recent studies show that South African SMMEs are still plagued with the same economic factors that affected them two decades ago. Similarly, the results from this study shows that the economic factors that were identified in the early 2000s still affect SMMEs to a larger extent, and these are inter alia, 1) cost of electricity, 2) stiff competition, 3) difficult access to finance (external funding), 4) unemployment rates, 5) labour costs, 6) interest rates, 7) crime, 8) cost of water, 9) excessive legislation, rules and regulations, and 10) size of business (capacity to meet demand). This is quite concerning considering that it is the SMMEs that are expected to be on the forefront of job creation in the country. One probable reason for this disconcerting situation is the non-utilisation of the research work that has been conducted over the years. Researchers have been identifying these economic factors, yet little action has been exercised upon these reports. In addition, South African SMMEs lack the requisite business skills to deal with these menacing economic factors which are affecting their operations. Thus, the government and SMME owners and/or managers should work closely with scholars, so as to ensure the adequate management of these adverse economic factors.

5.2. Managerial implications

The results from this study suggest that owners and/or managers of sampled South African SMMEs have not taken an appropriate stance pertaining to the management of economic factors which, in turn, adversely affect their perceived sustainability. This may be as a result of inter alia, a lack of basic business skills, limited communication of recommendations between scholars and South African SMMEs, limited communication of recommendations between scholars and the South African government, weak implemented internal control initiatives and weak risk management approaches. If economic factors are not dealt with accordingly (and appropriately) the sustainability of South African SMMEs will not improve; resulting in the sustained non-attainment of government’s applicable socio-economic objectives.

5.3. Recommendations

Most the identified economic factors pertain to macro-economic factors, which management cannot control to a greater extent. Hence, the communication between scholars and the government should be enhanced so that the recommendations from conducted studies are acted upon. This will result in an improved economic environment, particularly in relation to labour costs, interest rates and inflation rates. Furthermore, the government should subsidise the cost of supplying reliable water and electricity. More institutions should be formed with the main goal of coaching SMME managers and/or owners how to manage the trending adverse economic factors.

Regarding the micro-economic factors which business entities have significant control over, South African SMMEs should enhance their business skills, in order to be able to manage these economic factors adequately. Furthermore, these SMMEs should consider implementing the renowned risk management approaches in their businesses. The above mentioned can be fostered by promoting interactions between scholars and SMME owners and/or managers, where recommendations from conducted studies will be discussed.

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