

# How the “Tone At The Top” Influences the Economic Sustainability of South African Small, Medium and Micro Enterprises

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*Despite the contributions South African Small, Medium and Micro Enterprises (SMMEs) make to the national economy, they have among the highest failure rates in the world. Though various factors contribute to their high failure rate, one factor has not been considered, namely the potential lack of governance. Governance is seldom researched in a South African SMME dispensation, rendering it a nascent research topic. Hence, this study aimed to determine the influence the “tone at the top” had on the economic sustainability of sampled South African SMMEs. The research study was empirical, exploratory and took the form of survey research. A quantitative research methodology was used and data were collected through self-administered questionnaires from 123 South African SMME owners/managers and 82 South African SMME employees. All respondents had to adhere to relevant sets of delineation criteria. Stemming from the results, out of all tested attributes of management, seven overlapping attributes stood out for both South African SMME owner/managers and employees, along with the managerial operating style of members of management, were found to significantly influence the economic sustainability of sampled South African SMMEs in a mixed manner. Considering the nascent nature of the research topic and the identified research problem, this study serves as a foundation for future research studies to be conducted on South African SMME governance.*

**Keywords:** governance, economic sustainability, managerial conduct, managerial operating style, SMMEs

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## 1. Introduction

In 1996, South African Small, Medium and Micro Enterprises (SMMEs) were formally recognised by the national government through the publication of the National Small Business Act No. 102 of 1996 (Mbomvu et al., 2021). According to this legislative document, a SMME is defined as: “[a] separate and distinct business entity, including co-operative 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” (South Africa, 1996). According to the Revised Schedule 1 of the National Definition of Small Enterprises in South Africa (2019), these business entities can be classified as micro-enterprises when they employ between 0 and 10 full-time employees; as small-enterprises when they employ between 11 and 50 full-time employees; as medium-enterprises when they employ between 51 and 250 full-time employees. It is worth noting that annual turnover is also used to classify South African SMMEs in terms of size and amounts vary significantly from sector to sector (Bruwer, 2019; South Africa, 2019). This specific classification criteria was not used in this study however.

Within a socio-economic context, South African SMMEs are crucial to the national economy (Mbomvu et al., 2021). This view is further justified by prior studies (Goto and Negash, 2016; Bruwer and Coetzee, 2017; Makwara, 2019; Jonck and Nwosu, 2022; Matubatuba, 2022) where it was found that these business entities contribute at least 40% to the national Gross Domestic Product (GDP) and provide employment opportunities to at least 50% of the national workforce. As a result, it is not surprising that South African SMMEs have received attention from the national government through initiatives such as KHULA Enterprise Finance Agency, the Small Enterprise Finance Agency, the Small Enterprise Development Agency, the National Youth Development Agency and more recently, SMME relief grants during the COVID-19 pandemic (Kelly et al., 2021; Botha, Smulders et al., 2021; PMG, 2021). The COVID-19 pandemic stemmed from the outbreak of the Coronavirus Disease 2019 in late-2019 / early-2020 (Perold, et al., 2020). The “pandemic status” of COVID-19, in South Africa, ceased in April 2022.

Notwithstanding the above, it is disconcerting to note that prior research (Ngcongco, 2019; Majadibodu, 2023) shows that South African SMMEs have among the worst failure rates in the world. The latter is substantiated by the fact that, before the COVID-19 pandemic, up to 75% of these business entities were reported to fail after being in operation for only a three-year period (Ngibe and Lekhanya, 2019; Bruwer et al., 2021; Ayandibu et al., 2021; Malicichi, 2023). At present, though the failure rate of South African SMMEs are still unknown in a post-COVID-19 dispensation, it is anticipated that they will be much worse than before the pandemic (Singh, 2020).

The blame for the high failure rate of South African SMMEs has been pinned on an array of factors. These factors include, among other, economic factors (e.g. inflation, interest rates, supply and demand and product quality), technological factors (e.g. communication resources, logistics technology and marketing technologies), social factors (e.g. culture, language, unemployment and debt) and political factors (e.g. policies, procedures and legislation) (Masama and Bruwer, 2018; Serame, 2019; Phosa, 2019; Bvuma and Marnewick., 2020; Ramraj, 2021). At the time of writing the paper, a specific factor that has not been widely researched was a potential factor that may contribute towards the high failure rate of South African SMMEs, is that of governance.

The term “governance” has to do with how management executes their authority in relation to an entity's holistic development (Miah et al., 2022). The term “governance” is also referred to as a system comprising of rules, laws and factors that directly affect the operational activities of an organisation (Naseem et al., 2017). In turn, such a system should balance the interests of all applicable stakeholders to assist a business entity in achieving its objectives (Bruwer and Siwangaza, 2016).

In a bureaucratic system, policies and procedures are much more formal when compared to that of a non-bureaucratic system (Chipunza, 2019). SMMEs generally form part of the latter and, more often than not, the term “governance” is generally synonymous with the “tone set at the top” (Masama et al., 2022). The “tone at the top” is characterised by attributes such as discipline, transparency, independence, accountability, responsibility and fairness, as well as managerial operating styles (Bruwer, 2016; Bruwer et al., 2017).

At the time of writing this paper, very few research studies have been conducted on governance in a South African SMME dispensation. While keeping in mind that governance generally has a direct influence the overall sustainability of business entities, regardless of their size (Chininga et al., 2023), it is unclear as to how the “tone at the top” influences the economic sustainability of South African SMMEs. Economic

sustainability pertains to profitability (whether income is greater than expenses), solvency (whether assets are greater than liabilities), liquidity (whether sufficient cash is on hand to pay current liabilities) and going concern status (reasonable assurance that a business will remain in operation for the foreseeable future) (Bruwer and Petersen, 2022). South African SMMEs require economic sustainability before they can focus on social sustainability and environmental sustainability, among other forms of sustainability. Hence, the primary objective of this research study was to ascertain how the “tone at the top” influences the economic sustainability of South African SMMEs, based on the views of internal stakeholders (i.e. owners and/or managers as well as employees). For the remainder of this paper, content is demarcated under the following headings: 1) conceptual framework, 2) research design, methodology and methods, 3) results and discussion, 4) recommendations, 5) conclusion and 6) avenues for further research.

## **2. Conceptual framework**

For the sakes of contextualisation and conceptualisation, the subheadings of this section are categorised as follows: 1) South African SMMEs in context, 2) a brief overview of governance and 3) governance in a South African SMME context.

### **2.1. South African SMMEs in context**

South African SMMEs play a pivotal role in stimulating the national economy and driving its socio-economic objectives (Matekenya and Moyo, 2022; Murphy et al., 2022; Bruwer and Petersen, 2022; Madzimure and Abrahams, 2022; Mmakhuthe, 2022; Masingili, 2022; Van Wyk and Venter, 2023). This is not really surprising considering the fact that South African SMMEs constitute 90% of all businesses operating in South Africa and can vehemently be viewed as the backbone of the national economy, mainly due to their remarkable contribution to the national GDP and the creation of jobs (Bruwer, Coetzee and Meiring, 2018; Murphy et al., 2022; Koti and Modiba, 2022; Mmakhuthe, 2022; Ngonisa et al., 2023). In a recent Funding Policy Framework published by the Department of Small Business Development (2023), it was reported that South African SMMEs contribute 40% towards GDP and account for 87% of employment in the country. The latter statistic on job creation shows that the SMME sector is not far from achieving the National Development Plan (NDP) ambition of 90% of jobs in South Africa being created by SMMEs, by 2030 (NDP, 2013).

Notwithstanding the significant role South African SMMEs fulfil in growing and developing South Africa on a socio-economic front, recent research studies show that the holistic sustainability (particularly the economic sustainability) of these business entities is under severe pressure, owing to their astronomically high failure rates (Murphy et al., 2022, Bruwer and Petersen, 2022; Farisani, 2022; Masama et al., 2022; Rungani, 2022; Gqoboka et al., 2023; Chukwuneme et al., 2023; Mhlongo and Daya, 2023; Zulu et al., 2023). Research studies conducted specifically within the South African context indicate that these business entities have among the highest failure rate in the world, with more than 70% of ceasing to operate after the first three years of their existence (Murphy et al., 2022, Bruwer and Petersen, 2022). This concern was further exacerbated by the COVID-19 pandemic, where over 60% of SMMEs had to forcefully close their doors due to legislative requirements (e.g. restriction of trade and curfews) that adversely impacted certain industries and/or jurisdictions of the South Africa (Gqoboka et al., 2023). The COVID-19 pandemic did not only expose the lack of business resilience (adaptability) evident in these entities, but also inhibited them to develop, grow and become sustainable (Farisani, 2022).

Factors that contribute to the high failure rate of South African SMMEs have been extensively researched over the years. Notwithstanding the latter, the failure rate of South African SMMEs have not improved over the years (Bruwer, 2016; Bruwer et al., 2019; Masama et al., 2022; Rungani, 2022; Department of Small Business Development; 2023). One factor that has not received much attention is the factor of governance evident in South African SMMEs (Sibindi and Aren, 2015; Jena, 2016; Bruwer and Siwangaza, 2016; Gurayah, 2021).

It should be noted that the importance of sound governance within South African SMMEs cannot be stressed enough, as it is a prerequisite for sustainability, growth and overall financial well-being of these business entities (Flowers et al., 2013; Dicey, 2016; Sarah, 2017; Mazikana, 2019). This is particularly the case as the adoption of sound governance should not only assure the “survival” of South African SMMEs but will also strengthen the competitiveness of these entities, especially in the context of the number of newly

established SMMEs (Gurayah; 2021). This is particularly in line with the liability of newness theory as newly established South African SMMEs are mostly affected having limited clients and limited resources which (Bruwer, 2023). This may strongly relate to the manner in which management executes their responsibilities (Gerber, 1995).

## **2.2 A brief overview of governance**

As previously alluded to, the term “governance” can be regarded as a type of system by which an organisation is controlled and operates, including the mechanisms by which such an organisation and its applicable stakeholders are held accountable (Barten et al., 2011). In addition, such a system should provide assistance with the directing and controlling of operations, while simultaneously being cognisant of relationships with applicable stakeholders in pursuit of attaining relevant organisational objectives (Willis, 2005; Mason, Kirkbride and Bryde, 2007; Ruhanen et al., 2010).

In fundamental nature, the significance of governance rests in the manner it influences how an organisation’s objectives are both set and achieved, the process of managing risk and how performance is optimised (Salviono, 2003; Palmer, 2022). Sound governance generally includes practices and policies that keep a business on track and it introduces checks, balances and expert advice to ensure accountability, transparency, participation, efficiency, effectiveness, responsiveness, among other (Waheduzzaman, 2007; Council of Europe, 2023; United Nations, 2023).

Governance is important in all organisations, however it is seen as more essential for larger organisations due to increased scrutiny from regulators, investors and the public (Thomsen, 2004). This is also the case since larger organisations are subject to more stringent legal requirements and good governance practices that requires them to continuously improve on their compliance with such requirements (CFA Institute, 2018; Donohue, 2022).

## **2.3 Governance in a South African SMME context**

Governance is essential not only for larger organisations but also for SMMEs (Sibindi and Aren, 2015). In particular, governance benefits SMMEs through guiding owners and/or managers to “set the tone at the top” to better plan, organise, direct and control (Gu et al., 2022). The latter can potentially lead to improved access to finance and improved financial performance by ensuring that resources are used efficiently and effectively (International Finance Corporation, 2019). Furthermore, governance promotes the competitiveness of SMMEs by enhancing their reputation, improve the quality of human capital that is attracted and/or retained and enhancing their ability to be innovative (OECD, 2010).

As previously alluded to, the term “governance” is a nascent research topic in a South African SMME dispensation. According to Flowers et al. (2013) and Gordon et al. (2014), governance in South African SMMEs is more synonymous with the tone being set at the top by management. Management generally includes owners and/or managers of such organisations as they can effectively be regarded as their SMMEs’ “Chief Executive Officers” and “Board of Directors”. In layperson’s terms, the “tone at the top” has to do with the fact that a business is a vivid and clear reflection of its management (Gerber, 1995). Based on the work of Bruwer (2016), the “tone at the top” is best measured through means of managerial conduct which, in turn, pertains to managerial philosophy (the attitude of management based on core attributes/values) and managerial operating style (the manner in which management manages) (Kirkeby, 2000; Jamian et al., 2013; Bruwer and Coetzee, 2016). At the core, these components comprise of the following elements (Bruwer, 2016; Bruwer, Coetzee and Meiring, 2017):

**Managerial philosophy:** Attributes and/or values which include accountability, adaptability, ambition, analytical, cautiousness, commitment, communicative, compassion, competitiveness, consistency, courageous, creativity, curiosity, dependable, discipline, diverse, enthusiastic, ethical, fair, futuristic, generous, humble, inclusive, independence, innovation, logical, loyal, optimiser, optimist, organised, realistic, responsibility, strategic, transparent and trustworthy.

**Managerial operating style:** Chaotic managerial operating style (employees are given full control of taking action), persuasive managerial operating style (employees are persuaded by management’s views before taking action), democratic managerial operating style (employees are asked to give inputs before taking

action), semi-autocratic managerial operating style (management gets input from some employees before taking action but wants what is best for results), paternal managerial operating style (management has the final say before taking action but wants what is best for growth and development), laissez-faire managerial operating style (management lets employees take action at their own pace) and autocratic managerial operating style (management takes only their own views into account before taking action).

### **3. Research design, methodology and methods**

This research study constituted empirical research, exploratory research and survey research. More often than not, exploratory research is conducted when a research topic is relatively unknown and/or relatively new; where a researcher(s) wants a better understanding of such a topic (Wang et al., 2014; Nathan and Rajamanoharane, 2016). In addition, survey research pertains to collecting primary data from a selected sample, through their responses, to posed questions, generally in the form of a questionnaire (Ponto, 2015). Considering the aforementioned, including the fact that this study was nascent, the chosen research design was deemed appropriate by the researchers. Furthermore, in terms of the research methodology, this study was quantitative and fell within the positivistic research paradigm.

The questionnaire used stemmed from a doctoral study that was conducted by the corresponding author and relevant tests of validity and reliability were performed in his thesis. At the core, the questionnaire was self-administered and non-probability sampling methods were deployed. The targeted population for this study were owners and/or managers of South African fast-moving consumer goods (FMCG) SMMEs and their respective full-time employees. Taking into account that the population sizes of the targeted population were unknown, including the facts that data were collected from specific respondents who had to adhere to specific delineation criteria (Higginbottom, 2004), while also having to be based in the Cape Metropole – in close proximity of the corresponding researcher (Uludag, 2013) – a mixture of purposive sampling and convenience sampling were used.

For respondents' responses to be regarded as valid, they first had to be regarded as internal stakeholders (either owner/manager or employee) of a South African FMCG SMME that: 1)

adhered to the definition of a SMME as per relevant legislation, 2) was a sole proprietor, partnership, close corporation or private company, 3) was classified as a non-franchised business entity, 4) operated in the FMCG industry, 5) employed between one and 50 employees and 6) operated in the geographical area of the Cape Metropole.

Following the above, the response of an owner/manager was only considered valid if he/she: 1) was regarded as owner and/or manager of his/her respective business entity, 2) was in an authoritative position, within his/her business entity and 3) had experience (in years) as owner and/or manager. In turn, if a respondent was an employee, his/her response was only considered valid if he/she: 1) was employed (permanently) by the relevant business entity, 2) fulfilled a non-managerial position within the business entity and 3) had work-related experience (in years) in the business entity.

A total of 130 responses were received from South African FMCG SMME owners/managers, while a total of 90 responses were received from South African FMCG SMME employees. A total of 123 responses received from South African FMCG SMME owners/managers were deemed valid (94.61%); a total of 82 responses received from South African FMCG SMME employees were regarded as valid (91.11%). Throughout the study, relevant ethical considerations were taken into account, such as safeguarding respondents from physical harm, guaranteeing anonymity of respondents, guaranteeing confidential treatment of information provided by respondents and voluntary participation by respondents in the study. For the sake of transparency, ethical clearance was received from the Cape Peninsula University of Technology to conduct this research study (2015FBREC251).

### **4. Results and discussion**

First, respondents were asked to provide information pertaining to the delineation criteria mentioned above. Considering that all delineation criteria were adhered to, in Table 1 and Table 2, summaries of the non-apparent descriptive statistics are provided:

**Table 1: Summary of delineation criteria – SMMEs**

<b>Delineation criteria</b>	<b>Statistics</b>
<u>SMME classification</u>	
Sole trader	65.90%
Partnership	12.70%
Close corporation	11.20%
Private company	10.20%
<u>Type of business</u>	
Retail store	22.00%
Wholesale store	5.90%
Caterer	6.80%
Restaurant	8.80%
Convenience store	9.30%
Café	7.80%
Spaza shop	12.20%
Tuck shop	22.00%
Other	5.40%
<u>Number of employees</u>	
Between 0 and 10 (micro)	86.80%
Between 11 and 50 (small)	13.20%
<u>Business existence in years</u>	
Mean	8.6 years
Median	6.0 years
Mode	5.0 years

Source: Authors' own

**Table 2: Summary of delineation criteria - owners/managers and employees**

	<b>Owners/Managers</b>	<b>Employees</b>
<u>Managerial position</u>		
Owner	39.00%	N/A
Manager	34.20%	N/A
Owner-manager	26.80%	N/A
<u>Years' experience</u>		
Mean	6.4 years	3.6 years
Median	5.0 years	3.0 years
Mode	2.0 years	1.0 years

Source: Authors' own

Stemming from the above, the inference can be made that the average South African FMCG SMME, in this study, was a non-franchised, sole trader, micro-enterprise, that has been operating as a retail business/tuck shop, for an average of 8.6 years, in the Cape Metropole. Furthermore, the average owner/manager had decision-making rights in his/her SMME with an average of 6.4 years of managerial experience. Also, the average employee had no decision-making rights in his/her SMME and had 3.6 years of work-related experience. Next, respondents were asked to share their views on their SMMEs' economic sustainability. This was done by asking respondents to indicate their agreement on a five-point Likert Scale (1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree and 5 = strongly agree) on four statements starting with the base sentence: “The business ...” A summary of the responses are shown in Table 3 below, per respondent group:

From the results in Table 3 it becomes apparent that managers/owners of SMMEs were in agreement that their SMMEs were profitable (62.6% agreement); were solvent (51.4%); were liquid (73.2%); were going concerns (83.8% agreement). Although the views of managers/owners surrounding solvency are concerning,

it is unclear why their agreement levels were not in line with the other line items. In addition to the above, from the views of SMME employees, it appears that they were in agreement that their SMMEs were profitable (47.6% agreement); were solvent (28.0% agreement); were liquid (31.7% agreement); were going concerns (65.9%).

Following the above, respondents were also asked to describe the overall economic sustainability of their SMMEs using a five-point Likert scale (very bad, bad, neutral, good, or very good). A total of 83.7% of managers/owners indicated “good” while only 67.1% of employees indicated “good”. On the one hand, these low agreement levels are concerning as they may have observed phenomena and/or heard information that influenced their responses. On the other hand, it should be noted that employees do not necessarily know the particulars of their SMMEs’ financial matters. In the same vein, it should be noted that the manner in which sampled South African SMMEs were managed (the tone set at the top) could have played a role in the responses provided by employees.

**Table 3: Summary of respondents’ views on their SMMEs’ economic sustainability**

<b>Owners/managers</b>					
	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly agree</b>
Has more income than expenses (profitable)	7.3%	13.0%	17.1%	35.8%	26.8%
Has more assets than liabilities (solvent)	-	21.0%	27.6%	40.0%	11.4%
Has sufficient cash on hand (liquid)	3.2%	4.1%	19.5%	62.6%	10.6%
Will remain in operation for the foreseeable future (going concern)	-	2.4%	13.8%	52.9%	30.9%
<b>Employees</b>					
	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly agree</b>
Has more income than expenses (profitable)	15.8%	12.2%	24.4%	22.0%	25.6%
Has more assets than liabilities (solvent)	6.1%	15.9%	50.0%	20.7%	7.3%
Has sufficient cash on hand (liquid)	11.0%	15.8%	41.5%	19.5%	12.2%
Will remain in operation for the foreseeable future (going concern)	-	2.4%	31.7%	36.6%	29.3%

Source: Authors’ own

To better understand the tone set at the top in sampled South African SMMEs, respondents were first asked to provide insight into the managerial operating style of managers/owners. This was done by asking respondents to indicate their agreement on a five-point Likert Scale (1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree and 5 = strongly agree) on seven statements starting with the base sentence: “The business management’s operating style is best described by ...” A summary of the responses are shown in Table 4 below, per respondent group:

**Table 4: Summary of respondents' views on SMME managerial operating styles**

<b>Owners/managers</b>					
	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly agree</b>
Employees being given full control of taking action (chaotic)	15.4%	30.1%	19.5%	24.4%	10.6%
Employees being persuaded by management's views before taking action (persuasive)	4.9%	17.9%	27.6%	39.8%	9.8%
Employees being asked to give inputs before taking action (democratic)	4.9%	12.2%	29.3%	39.0%	14.6%
Management getting input from some employees before taking action (semi-autocratic)	4.1%	9.8%	26.0%	47.1%	13.0%
Management has the final say before taking action (paternal)	-	1.6%	22.0%	39.8%	36.6%
Management lets employees take action at their own pace (laissez-faire)	15.4%	29.3%	30.1%	21.1%	4.1%
Management takes only their own views into account before taking action (autocratic)	3.3%	14.6%	39.0%	28.5%	14.6%
<b>Employees</b>					
	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly agree</b>
Employees being given full control of taking action (chaotic)	23.2%	11.0%	25.6%	18.2%	22.0%
Employees being persuaded by management's views before taking action (persuasive)	3.7%	13.4%	31.7%	36.6%	14.6%
Employees being asked to give inputs before taking action (democratic)	2.4%	11.0%	22.0%	41.4%	23.2%
Management getting input from some employees before taking action (semi-autocratic)	7.3%	2.4%	29.3%	42.7%	18.3%
Management has the final say before taking action (paternal)	-	3.6%	22.0%	32.9%	41.5%
Management lets employees take action at their own pace (laissez-faire)	13.4%	15.9%	35.4%	28.0%	7.3%
Management takes only their own views into account before taking action (autocratic)	7.3%	11.0%	32.9%	28.0%	20.8%

Source: Authors' own

Stemming from the results of Table 4, the top three managerial operating styles that management applies, according to managers/owners and employees, were the paternal managerial operating style (76.4% agreement for managers/owners / 74.4% agreement for employees), semi-autocratic managerial operating style



(60.1% agreement for managers/owners / 64.6% agreement for employees) and democratic managerial operating style (53.6% agreement for managers/owners / 61.0% agreement for employees). Notwithstanding the aforementioned, all respondents agreed, holistically, on the managerial operating styles applied by management in sampled South African SMMEs. When asked whether the managerial operating styles applied by management were appropriate for their SMMEs, managers/owners had an 83.7% agreement, while employees had a 68.3% agreement.

To better understand where the managerial operating styles above stemmed from, respondents were asked to provide insight into the attributes of management. This was done by asking respondents to indicate their agreement on a five-point Likert Scale (1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree and 5 = strongly agree) on 35 statements starting with the base sentence: “The business management’s has the following attributes ...” A summary of the responses are shown in Table 5 below, per respondent group:

*Table 5: Summary of respondents’ views on SMME management’s attributes*

<b>Owners/managers</b>					
	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly agree</b>
Accountability	-	0.8%	10.6%	58.5%	30.1%
Adaptability	-	3.3%	11.4%	61.7%	23.6%
Ambition	-	-	14.6%	49.6%	35.8%
Analytical	-	1.6%	30.9%	60.2%	7.3%
Cautiousness	0.8%	-	18.7%	57.7%	22.8%
Commitment	-	0.8%	2.4%	58.6%	38.2%
Communicative	-		4.2%	56.8%	39.0%
Compassion	-	-	13.1%	59.3%	27.6%
Competitiveness	-	1.6%	15.5%	59.3%	23.6%
Consistency	-	-	13.0%	69.1%	17.9%
Courageous	-	0.8%	17.9%	58.5%	22.8%
Creativity	-	-	19.5%	54.5%	26.0%
Curiosity	0.8%	3.3%	24.3%	54.5%	17.1%
Dependable	1.6%	1.6%	6.5%	64.3%	26.0%
Discipline	-	0.8%	5.7%	56.1%	37.4%
Diverse	-	0.8%	22.0%	53.6%	23.6%
Enthusiastic	0.8%	-	17.1%	65.0%	17.1%
Ethical	-	-	21.1%	63.5%	15.4%
Fair	-	0.8%	7.3%	60.2%	31.7%
Futuristic	-	0.8%	18.7%	56.1%	24.4%
Generous	-	1.6%	17.1%	62.6%	18.7%

Humble	-	0.8%	12.2%	51.2%	35.8%
Inclusive	0.8%	0.8%	20.3%	61.8%	16.3%
Independence	2.4%	-	13.8%	58.5%	25.3%
Innovation	-	0.8%	17.0%	53.7%	28.5%
Logical	-	1.6%	18.7%	64.3%	15.4%
Loyal	-	0.8%	12.2%	58.5%	28.5%
Optimiser	0.8%	2.4%	21.1%	60.3%	15.4%
Optimist	0.8%	2.4%	18.7%	54.5%	23.6%
Organised	-	1.6%	4.1%	56.9%	37.4%
Realistic	-	0.8%	4.9%	59.3%	35.0%
Responsibility	-	-	9.8%	52.8%	37.4%
Strategic	-	1.6%	20.3%	57.7%	20.4%
Transparent	-	2.4%	23.6%	54.5%	19.5%
Trustworthy	-	0.8%	3.3%	53.6%	42.3%
<b>Employees</b>					
	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly agree</b>
Accountability	2.4%	3.7%	24.4%	30.5%	39.0%
Adaptability	1.2%	3.7%	17.1%	46.3%	31.7%
Ambition	-	1.2%	18.3%	30.5%	50.0%
Analytical	-	2.4%	47.6%	35.4%	14.6%
Cautiousness	-	1.2%	19.6%	51.2%	28.0%
Commitment	1.2%	4.9%	8.5%	29.3%	56.1%
Communicative	3.7%	1.2%	12.2%	30.5%	52.4%
Compassion	-	2.4%	18.3%	47.6%	31.7%
Competitiveness	-	2.4%	23.2%	43.9%	30.5%
Consistency	1.2%	-	29.3%	36.6%	32.9%
Courageous	-	1.2%	29.3%	46.3%	23.2%
Creativity	-	2.4%	24.4%	35.4%	37.8%
Curiosity	1.2%	1.2%	29.3%	48.8%	19.5%
Dependable	1.2%	-	22.0%	48.8%	28.0%
Discipline	1.2%	-	13.4%	48.8%	36.6%

Diverse	-	1.2%	26.8%	41.5%	30.5%
Enthusiastic	1.2%	-	35.4%	48.8%	14.6%
Ethical	3.7%	-	46.3%	32.9%	17.1%
Fair	2.4%	1.2%	23.3%	45.1%	28.0%
Futuristic	1.2%		24.4%	40.3%	34.1%
Generous	-	3.7%	22.0%	54.8%	19.5%
Humble	-	1.2%	22.0%	26.8%	50.0%
Inclusive	-	-	29.3%	43.9%	26.8%
Independence	1.2%	1.2%	28.0%	40.3%	29.3%
Innovation	1.2%	1.2%	30.5%	37.8%	29.3%
Logical	1.2%	1.2%	41.5%	39.0%	17.1%
Loyal	-	2.4%	18.3%	43.9%	35.4%
Optimiser	-	3.7%	39.0%	30.5%	26.8%
Optimist	1.2%	-	39.0%	39.0%	20.8%
Organised	1.2%	3.7%	7.3%	28.0%	59.8%
Realistic	-	1.2%	8.5%	47.6%	42.7%
Responsibility	1.2%	3.7%	11.0%	32.9%	51.2%
Strategic	-	-	31.7%	47.6%	20.7%
Transparent	-	4.9%	32.9%	40.2%	22.0%
Trustworthy	-	4.9%	8.5%	35.4%	51.2%

Source: Authors' own

From the responses in Table 5 above, the top ten attributes of management, according to managers/owners were: 1) Commitment (96.8% agreement), 2) Trustworthy (95.9% agreement), 3) Communicative (95.8% agreement), 4) Realistic (94.3% agreement), 5) Organised (94.3% agreement), 6) Discipline (93.5% agreement), 7) Fair (91.9% agreement), 8) Dependable (90.3% agreement) 9) Responsible (90.2% agreement) and 10) Accountability (88.6% agreement). In turn, the top ten attributes of management, according to employees were: 1) Realistic (90.3% agreement), 2) Organised (87.8% agreement), 3) Trustworthy (86.6% agreement), 4) Commitment (85.4% agreement), 5) Discipline (85.4% agreement), 6) Responsibility (84.1% agreement), 7) Communicative (82.9% agreement), 8) Ambition (80.5% agreement), 9) Loyal (79.3% agreement) and 10) Compassion (79.3% agreement). A total of seven attributes were found to overlap between managers/owners and employees, namely (in no particular order), namely: realistic, organised, trustworthy, commitment, discipline, responsibility and communicative.

Using the above as a basis, relevant inferential statistics were performed to determine the relationship between these key attributes, the managerial operating styles in sampled South African SMMEs and the economic sustainability of these business entities. First, a factor analysis (principle axis factoring) was performed on the seven overlapping attributes identified in Table 5. Considering that the overlap was evident for both population targets, before a grouping of items can be regarded as a legitimate factor, it needs to have a Kaiser-Meyer-Olkin (KMO) value greater than 0.600 (Field, 2009), as well as a Cronbach Alpha value of greater than 0.600 (Hair, Black, Babin and Anderson, 2010). The calculated KMO value of the seven

overlapping attributes amounted to 0.865 and a Cronbach Alpha value of 0.779. The numeric values for these seven overlapping attributes were thus averaged and recognised as a legitimate factor with the name “KEYATT”. The factor loadings are evident in Table 6 below.

**Table 6: Factor loadings of the seven overlapping attributes**

Item	Factor loading score
Realistic	0.553
Organised	0.746
Trustworthy	0.717
Commitment	0.765
Discipline	0.590
Responsibility	0.765
Communicative	0.706

Source: Authors’ own

As respondents had similar views surrounding the managerial operating style in sampled South African SMMEs, an independent samples t-test was performed only on the variables surrounding the economic sustainability of these business entities. The latter was performed to compare the differences between the two groups (Heiman, 2010). Where a p-value > 0.05 is identified, equal variances cannot be assumed (Ab Rahman, 2015). A summary of the results is shown in Table 7 below.

**Table 7: Independent samples t-test on economic sustainability variables**

		Levene's test for equality of variances		t	df	Sig. (2-tailed)	Mean dif.	Std Error dif.	95% Confidence Interval of the difference	
		F	Sig						Lower	Upper
Profitable	EVA	3.002	0.085	1.768	203	0.079	0.325	0.184	-0.038	0.688
Solvent	EVNA			2.518	173.223	0.013	0.341	0.136	0.074	0.609
Liquid	EVNA			4.588	137.342	0.000	0.671	0.146	0.382	0.960
Going concern	EVA	3.997	0.047	1.760	203	0.080	0.195	0.111	-0.023	0.414
Overall economic sustainability	EVA	3.711	0.055	-1.341	203	0.181	-0.167	0.124	-0.412	0.078

Note: EVA = Equal Variances Assumed, EVNA = Equal Variances Not Assumed

Source: Authors’ own

Based on the results from Table 7, the variables pertaining to solvency (t=2.518; p=0.01) and liquidity (t=4.88, p=0.00), the views of owners/managers and employees differed significantly from one another. To this end, the holistic data for these two variables could not be analysed together with the remaining two variables with equal variances assumed. The remaining variables of profitability (t=1.768; p=0.079), going

concern (t=-1.760; p=0.080) and overall economic sustainability (t=-1.341; p=0.181) did, however, not differ significantly in relation to the views of owners/managers and employees. For this reason, the latter two variables could be analysed together for further inferential statistics.

Next, Pearson correlations were performed (separately for managers/owners and employees) to ascertain the relationships evident between KEYATT, the economic sustainability (excluding the two variables of solvency and liquidity) of sampled South African SMMEs and their managerial operating styles. A summary of the correlations is evident in Table 8 on the next page.

From the 110 tested relationships in Table 8, 68 were statistically significant (61.81% of all tested relationships). Of these statistically significant relationships, the most meaningful ones were as follows: a weak positive statistically significant relationship exists between KEYATT and Democratic and vice versa ( $\beta = 0.234$ ), a weak positive statistically significant relationship exists between KEYATT and Semi-autocratic and vice versa ( $\beta = 0.283$ ), a weak negative statistically significant relationship exists between KEYATT and Autocratic and vice versa ( $\beta = -0.227$ ), a very weak negative statistically significant relationship exists between KEYATT and Profitable and vice versa ( $\beta = -0.178$ ), a weak positive statistically significant relationship exists between Democratic and Profitable and vice versa ( $\beta = 0.223$ ), a very weak positive statistically significant relationship exists between Democratic and Going concern and vice versa ( $\beta = 0.174$ ), a weak negative statistically significant relationship exists between Democratic and Overall economic sustainability and vice versa ( $\beta = -0.262$ ), a weak positive statistically significant relationship exists between Semi-autocratic and Profitable and vice versa ( $\beta = 0.248$ ), a weak positive statistically significant relationship exists between Semi-autocratic and Going concern and vice versa ( $\beta = 0.223$ ), a weak negative statistically significant relationship exists between Semi-autocratic and Overall economic sustainability and vice versa ( $\beta = -0.304$ ), a very weak positive statistically significant relationship exists between Paternal and Going concern and vice versa ( $\beta = 0.196$ ), a very weak negative statistically significant relationship exists between Paternal and Overall economic sustainability and vice versa ( $\beta = -0.162$ ), a weak positive statistically significant relationship exists between Profitable and Going concern and vice versa ( $\beta = -0.399$ ), a moderate negative statistically significant relationship exists between Profitable and Overall economic sustainability concern and vice versa ( $\beta = -0.485$ ), and a moderate negative statistically significant relationship exists between Going concern and Overall economic sustainability concern and vice versa ( $\beta = -0.522$ ).

In layperson’s terms, the statistically significant relationships highlighted above provide empirical evidence that the KEYATT of members of management of sampled South African SMMEs influenced their managerial operating styles, as well as their business entities’ economic sustainability in mixed ways. To test liquidity and solvency, two separate Pearson Correlations were performed for owners/managers and employees; as summarised in Table 9, following Table 8.

**Table 8: Pearson correlations for owners/managers and employees**

		1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.
<b>1. KEYATT</b>	Pearson											
	Sig. (2-tailed)											
<b>2. Chaotic</b>	Pearson	0.060										
	Sig. (2-tailed)	0.390										
<b>3.Persuasive</b>	Pearson	0.056	.340**									
	Sig. (2-tailed)	0.423	0.000									
<b>4. Democratic</b>	Pearson	.234**	.435**	.293**								
	Sig. (2-tailed)	0.001	0.000	0.000								

<b>5.Semi-autocratic</b>	Pearson	.283**	.465**	.213**	.566**							
	Sig. (2-tailed)	0.000	0.000	0.002	0.000							
<b>6.Paternal</b>	Pearson	0.053	-.261**	.235**	0.008	0.083						
	Sig. (2-tailed)	0.449	0.000	0.001	0.909	0.240						
<b>7. Laissez faire</b>	Pearson	0.057	.669**	.329**	.340**	.236**	.214**					
	Sig. (2-tailed)	0.420	0.000	0.000	0.000	0.001	0.002					
<b>8.Autocratic</b>	Pearson	-.227**	0.116	.330**	-0.105	-0.137	0.102	.287**				
	Sig. (2-tailed)	0.001	0.097	0.000	0.133	0.050	0.145	0.000				
<b>9. Profitable</b>	Pearson	-.178*	.275**	0.044	.223**	.248**	0.088	.218**	0.076			
	Sig. (2-tailed)	0.011	0.000	0.533	0.001	0.000	0.211	0.002	0.279			
<b>10.Going concern</b>	Pearson	0.126	0.027	-0.002	.174*	.223**	.196**	0.037	-0.062	.399**		
	Sig. (2-tailed)	0.073	0.706	0.977	0.012	0.001	0.005	0.594	0.378	0.000		
<b>11.Overall economic sustainability</b>	Pearson	-0.093	-.212**	-0.131	-.262**	-.304**	-.162*	-.253**	-0.057	-.485**	-.522**	
	Sig. (2-tailed)	0.184	0.002	0.061	0.000	0.000	0.020	0.000	0.418	0.000	0.000	

Source: Authors' own

**Table 9: Pearson correlations for liquidity and solvency**

Correlations					
		Employees		Owners/managers	
		Solvency	Liquidity	Solvency	Liquidity
<b>KEYATT</b>	Pearson Correlation	-0.175	-0.154	-0.066	-.253**
	Sig. (2-tailed)	0.115	0.167	0.471	0.005
<b>Chaotic</b>	Pearson Correlation	.407**	.393**	.302**	0.094
	Sig. (2-tailed)	0.000	0.000	0.001	0.303
<b>Persuasive</b>	Pearson Correlation	.308**	.231*	0.157	0.014
	Sig. (2-tailed)	0.005	0.036	0.083	0.878
<b>Democratic</b>	Pearson Correlation	0.212	0.185	0.177	0.135
	Sig. (2-tailed)	0.056	0.096	0.050	0.136
<b>Semi-autocratic</b>	Pearson Correlation	.349**	0.195	.237**	0.114

	Sig. (2-tailed)	0.001	0.079	0.008	0.211
<b>Paternal</b>	Pearson Correlation	0.063	-0.032	0.045	.194*
	Sig. (2-tailed)	0.575	0.774	0.620	0.032
<b>Laissez faire</b>	Pearson Correlation	.343**	.355**	.329**	0.106
	Sig. (2-tailed)	0.002	0.001	0.000	0.241
<b>Autocratic</b>	Pearson Correlation	.228*	.308**	0.046	-0.019
	Sig. (2-tailed)	0.039	0.005	0.616	0.836
<b>Profitability</b>	Pearson Correlation	.598**	.597**	.393**	.530**
	Sig. (2-tailed)	0.000	0.000	0.000	0.000
<b>Solvency</b>	Pearson Correlation	1	.543**	1	.361**
	Sig. (2-tailed)		0.000		0.000
<b>Liquidity</b>	Pearson Correlation	.543**	1	.361**	1
	Sig. (2-tailed)	0.000		0.000	
<b>Going concern</b>	Pearson Correlation	.268*	.365**	.257**	.446**
	Sig. (2-tailed)	0.015	0.001	0.004	0.000
<b>Overall economic sustainability</b>	Pearson Correlation	-.338**	-.515**	-.319**	-.554**
	Sig. (2-tailed)	0.002	0.000	0.000	0.000

Source: Authors' own

Of the 48 tested relationships in Table 9, 30 were statistically significant (62.5% of all tested relationships). From these statistically significant relationships applicable to owners/managers, the most meaningful ones were a weak negative statistically significant relationship existed between KEYATT and Liquidity and vice versa ( $\beta = -0.253$ ), a weak positive statistically significant relationship existed between Semi-autocratic and Solvency and vice versa ( $\beta = 0.237$ ), and a very weak positive statistically significant relationship existed between Paternal and Liquidity and vice versa ( $\beta = 0.194$ ). For employees, the most meaningful relationship was a weak positive statistically significant relationship existed between Semi-autocratic and Solvency and vice versa ( $\beta = 0.349$ ).

In layperson's terms, the statistically significant relationships highlighted above provide empirical evidence that the KEYATT of members of management of sampled South African SMMEs, influenced their managerial operating styles and the business entities' economic sustainability in mixed ways.

## 5. Recommendations

Considering the fact that the “tone at the top” serves as the foundation of any system of internal control, sampled South African SMMEs are recommended to re-evaluate their existing internal control systems using a SMME-specific internal control framework such as the Sustenance Framework. At the core, the manner in which management manages their SMMEs do not appear to overwhelmingly contribute favourably towards their respective SMMEs' economic sustainability. Of particular importance is for management of sampled SMMEs to understand the nature of their business entities (e.g. industry, location, products and markets) and what type of “tone at the top” they would like to set vs. what they are currently setting. This should also be considered since the significant benefits of a sound “tone at the top” can increase employee engagement, enhance reputation and reduce overall risks. Of equal importance, although not addressed by this research study is that the “tone at the top” will show the way for those who are responsible to “tone at the bottom” which, in essence, will highly likely have a direct influence on SMMEs' economic sustainability.

## 6. Conclusion

South African SMMEs play a vital role in the socio-economic stimulation of the country. Unfortunately their business entities have weak economic sustainability and among the highest failure rates in the world. Notwithstanding economic factors, technological factors and political factors, research suggests that these business entities’ failure rate may be linked to their governance.

Although governance is a well-researched topic, it is not deeply researched in a SMME dispensation. This is mainly due to the fact that larger business entities must formally comply with governance requirements – unlike the case of SMMEs. Within the ambit of this study, governance in South African SMMEs was regarded as the “tone set at the top” which, in turn, comprised of managerial philosophy and managerial operating style.

From the research conducted, it became apparent that seven key attributes (realistic”, “organised”, “trustworthy”, “commitment”, “discipline”, “responsibility” and “communicative”) stood out as the attributes that made up managerial philosophy in sampled South African SMMEs. Moreover, the managerial operating styles that were most evident in sampled South African SMMEs were that of paternal managerial operating style, semi-autocratic managerial operating style and democratic managerial operating style.

Data from the inferential statistics show that the “tone at the top” has a mixed statistically significant influence on the economic sustainability of sampled South African SMMEs. In particular, KEYATT had negative statistically significant influences on the economic sustainability of South African SMMEs, while the managerial operating styles (democratic, semi-autocratic and paternal) had both negative and positive statistically significant influences on the economic sustainability of South African SMMEs.

At the core, based on the research conducted, clear tangent planes emerge that the manner in which South African SMMEs are managed has a direct influence on the economic sustainability of these business entities. To this end, this study serves as a foundation for future research studies to be conducted on South African SMME governance.

### 6.1. Avenues for further research

From the research conducted, the following avenues for further research are suggested which include, but are not limited to the following:

- The influence of attributes on the economic sustainability of non-FMCG South African SMMEs.
- The influence of attributes on the managerial conduct of members of management of non-FMCG South African SMMEs.
- The influence of the managerial conduct of members of management on the economic sustainability of non-FMCG South African SMMEs.
- The influence of the “tone at the top” on the “tone at the bottom” of FMCG South African SMMEs.
- The influence of the “tone at the top” on the “tone at the bottom” of non-FMCG South African SMMEs.
- The influence of the “tone at the bottom” on the economic sustainability of FMCG South African SMMEs.
- The influence of the “tone at the bottom” on the economic sustainability of non-FMCG South African SMMEs.

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