

What Impact do Economic Issues Have on the Survival of SMEs Entrepreneurs?

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The inception of the democratic government resulted in the fast boom of small, medium and micro enterprises (SMMEs) owing to black economic empowerment (BEE). This government initiative will not be successful if these small businesses are not given support to deal with challenges they face when running their businesses. The study focuses on the economic issues impacting on SMMEs. The study consists of 50 SMEs in various sectors. Using structured questionnaires, the data were collected by personally visiting the SMEs entrepreneurs. The findings indicate that the economic issues do impact on the future viability of their businesses when looking at the current economic downturn.

INTRODUCTION

The South African economy has since 1994 been faced with challenges of reintegration into the global economy as a result of policies that were skewed. To achieve the objective of economic growth through competitiveness, employment generation and income redistribution, small businesses have been actively promoted since 1995. In the quest to fast track blacks to form part of South African conglomerates, black economic empowerment (BEE) was introduced. The success of the South African economy is intrinsically linked with the success of BEE. In this instance, a special call has been made to black people to play different roles in society and thus do everything possible to ensure that BEE succeeds. More than 80% of all businesses in South Africa are described as small businesses that contribute about 40% of all economic activity in the country (King, 1982). According to Bowler and Dawood (1996), more than 70% of all South Africans are employed in the small business sector. This sector is essential in promoting, achieving economic growth and development as well as the creation of wealth and employment.

A number of critical issues impacting on the future viability of small businesses in South Africa have been raised by community leaders and researchers. Dutton and Jackson (1987) state that the assumption underlying most organisational 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 enterprise (SME) activities as detailed in the National Small Business Act of 1996. As an indication of the seriousness of the government to promote SMEs, 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 mobilisation 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 paper investigates economic issues that pose challenges to SME entrepreneurs in terms of running their businesses to ensure viability. Due to the current economic downturn locally and globally, this however could further create a serious challenge to the SMEs to sustain their survival. The SMEs are likely to face bleak future as well as in comparison to major businesses where more than 20 factories have

already shutdown and about 4 700 workers losing their jobs (2008) 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 Ntingi, 2008.

PROBLEM STATEMENT

Small businesses in South Africa are operating in a rapidly changing environment with different issues impacting on their future viability. For the purpose of the study the problem manifests itself in the following research questions:

- What are the issues impacting on the future viability of small businesses in the Mamelodi metropolitan area?

OBJECTIVES OF THE STUDY

Against the background given above, this paper intends to

- Determine factors impacting on the future viability of small businesses in Mamelodi
- make suggestions to appropriate parties to alleviate the impact of negative issues on the future viability of small businesses 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 effectively. The rationale for quantitative research is “testing a theory composed of variables, measured with numbers and analysed with statistical procedures, with the view of determining the predictive generalizations of the theory” (Leedy & Ormrod 2005).

The survey consists of a developed questionnaire. According to Huysamen (1994), a survey questionnaire may be used to obtain the biographical details and opinions of respondents and this was perceived to be the appropriate tool for the study. Clear guidelines were given on how to complete the questionnaire. To obtain informed consent, the aim of the study and the process of data collection were explained and the respondents had a right to choose whether to participate or not. Respondents were also informed that confidentiality and anonymity will be maintained. The population consisted of 50 small business owners from Mamelodi in Gauteng. The participants were from the following sectors: food outlets (12), general dealers (21), garages (3), liquor outlets (4) and other (10). A convenient sampling approach was used to select participants for the study.

DATA COLLECTION AND ANALYSIS

A questionnaire was developed for data collection purposes mainly from relevant SME 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. The questionnaire consisted of questions pertaining to economic issues impacting on the future viability of small businesses. In each statement respondents had to indicate their degree of agreement or disagreement with the content. 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 paper, data will only be presented in percentages.

DISCUSSION OF THE FINDINGS

The survey was conducted in the Mamelodi metropolitan area and involved 50 small business owners. Of the 50 questionnaires issued, 43 were returned. This made a response rate of 85%.

Table 1: Economic issues impacting on the businesses survival.

ECONOMIC ISSUES	STRONGLY DISAGREE	DIS-AGREE	NEUTRAL	AGREE	STRONGLY AGREE
	1	2	3	4	5
1. Exchange rate volatility	0 0%	0 0%	25 50%	15 30%	10 20%
2. Increase in interest rates	0 0%	0 0%	10 20%	25 50%	15 30%
3. Increased inflation	0 0%	0 0%	15 20%	20 50%	15 30%
4. Cost of transport	0 0%	0 0%	10 20%	25 50%	15 30%
5. Banking costs	0 0%	0 0%	10 20%	25 50%	15 30%
6. Relaxation of exchange controls	0 0%	0 0%	25 50%	15 30%	10 20%
7. Scarcity of funds	0 0%	0 0%	0 0%	25 50%	25 50%
8. Competition from imports	0 0%	0 0%	15 30%	25 50%	10 20%
9. Foreign investments	0 0%	0 0%	10 20%	15 30%	25 50%
10. Communication costs	0 0%	0 0%	26 52%	14 28%	10 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 argued 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 to date this year 2008, hit by a 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 isn't going to 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 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 doesn't 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 globalisation 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.

The scarcity 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.

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.

Foreign investments

The survey findings reveal that 100% of the respondents agreed that foreign investments would affect them; the impact of export barriers is situation-specific, largely depending on the idiosyncratic managerial, organisational and environmental background of the firm. However, certain barriers, such as those relating to information inefficiencies, price competitiveness, foreign customer habits and politico-economic hurdles, seem to have a systematically strong obstructing effect on export behaviour.

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.

CONCLUSIONS

It is posited in this paper that economic factors are regarded as major obstacles to the viability 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 SMEs negatively. These particular factors are experienced world wide, and as a result many businesses are unable to survive. The reduction of interest rates could build business confidence.

IMPLICATIONS

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.

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