

An Investigation Into SME Existence and the Reduction of Unemployment in South Africa: Impact of the Macro Environment

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Abstract:

Small and medium enterprise (SME) existence in South Africa is very low while the unemployment rate is extremely high. This has been a long-term trend. The primary objective of this study was to investigate the influence of macro environment factors on SME existence (establishment, growth and sustainability) and its eventual impact on employment growth. A questionnaire comprising of closed-ended questions was administered to SME owners, managers or owner managers in the Eastern Cape province of South Africa. Respondents were selected using a simple random sampling method. Responses were measured using a five-point Likert scale. Data were analysed using SMART Partial Least Square (PLS) software. The results indicate that macro environment factors have an influence on SME existence. The findings revealed a significant relationship between SMEs in the establishment and the growth stage and employment growth while SMEs in the sustainability stage show no significant relationship with employment growth. The impact of macro environment factors on SMEs thus vary with the specific stage of SME existence.

Keywords:

SME Establishment, Growth, Sustainability, Macro Environment, Employment Growth.

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Introduction

SMEs are vital for economic prosperity; if their growth is impeded it may lead to economic stagnation in a country. The high SME failure rate and low establishment rate accompanied with the extremely high unemployment rate in South Africa is alarming. The creation rate for SMEs as measured by Total Early Stage Entrepreneurial Activity (TEA) rate is one of the lowest in efficiency driven economies and this negatively affects SMEs' potential for job creation and economic growth (Fatoki, 2014; Herrington et al., 2017). According to Herrington et al. (2015) the discontinuance rate of small businesses in South Africa is very high – well above the establishment rate of small businesses making it difficult for many people to be employed. Most SMEs do not survive beyond five years in South Africa; 70% to 80% of SMEs fail in their first year and only half of the surviving SMEs continue to exist for the next five years (OECD, 2020). The country faces a notable decline of SMEs surviving three years after establishment.

The high SME failure rate may be a big contributing factor to high levels of unemployment. In the first quarter of 2019, 55.2% of youth aged 15-24 in South Africa were unemployed while in the second quarter of 2024 the rate increased to 60.8%. At the same time the country's overall unemployment rate was 27.6% with 62 000 more people joining the unemployment line between the fourth quarter of 2018 and first quarter of 2019. A further increase in unemployment was noticed in the second quarter of 2024 where total unemployment increased to 33.5% with a total increase of 158 000 unemployed people. (Statistics South Africa, 2019; Statistics South Africa, 2024). The country's unemployment rate rose to 32.1% in the fourth quarter of 2023 (Trading Economics, 2024).

Worldwide, SMEs are believed to bring about a positive turnaround to a country's economy through job creation. South Africa's SMEs have contributed over 59% towards employment in the third quarter of 2022 (SEDA, 2022). However, the high failure rate means an increasing unemployment rate. The high discontinuance rate of SMEs is mainly involuntary rather than voluntary. This signifies sustainability challenges being faced by the SMEs caused by limiting factors.

Various authors have examined the macro environment factors that influence SME existence (Khan, 2014; Bouazza et al., 2015; Alyafie & Mubarak, 2016; Appiah et al., 2021). However, these studies either determined the effect of macro environment on an SME as a whole or focused only on a single or two of the three SME existence stages. The impact of the macro environment factors on SMEs at each of the three stages of their existence need to be separately understood to determine the extent of its effect as well as the eventual impact on employment growth. Thus the primary objective of this study was to investigate the effect of the macro environment variables on SME establishment, growth and sustainability in the Eastern Cape province of South Africa and the eventual influence on employment growth.

The macro environment factors in this study are the political environment, infrastructure, legislation, globalisation, technology and government. These macro environment factors were derived from assumptions of theory of the growth of the firm (Penrose, 1959), creative destruction theory (Grisold, 2021) and Solow's growth model - exogenous growth model (Chirwa & Odhiambo, 2018). The theory of the growth of the firm explains the factors which influence business establishment and growth. The creative destruction theory focuses on a business' ability to embrace changes in the macro environment (economy) for sustained growth. Solow's growth model was chosen because it asserts that it is external forces which largely influence the growth of a business. Contrary to other studies which focused on the impact of the macro environment on accessing finance such as the study by Lin et al. (2020), Singh et al (2022) study looked at the impact of macro environment factors on the overall performance of a business.

The major contribution of this research is revealing how each stage of SME existence is influenced by macro environment factors and how this eventually affects the unemployment rate. The establishment and growth stages of SMEs are generally the most affected by the macro environment factors while SME sustainability only becomes possible after a business has passed these first two stages. The study also reveals the impact on unemployment at the different stages of SME existence. The results can therefore be used by policy makers to help determine appropriate policy interventions and support programmes at the different stages of SME existence.

The data used in this research were obtained from the results in the researcher's main thesis. Respondents were selected using a simple random sampling method. Respondents were randomly selected at their central business areas. A questionnaire comprising of closed-ended questions was administered to SME owners, managers or owner managers. The questionnaire responses were measured using a five-point Likert scale. Data were analysed using SMART Partial Least Square (PLS) software.

The next section of this paper will focus on the literature review followed by research objectives, an explanation of the research methodology and finally a discussion of the results and drawing of conclusions.

Literature Review

This section provides a literature review on SME existence, and the effects of macro environment factors on SMEs, concluding with a theoretical review.

Empirical Review

SME existence

There is a large body of research that recognises the importance of SMEs to the economy. SMEs are believed to be an important engine to create employment and economic growth. Due to the recognised importance of SMEs, various support programmes have been introduced to sustain SMEs yet these programmes seem not to have been of much help as SMEs are continuing to face a high failure rate.

Research indicates that most SMEs fail in the early days of their inception (establishment stage) while the few who pass this stage and enter the growth stage also find it difficult to pass that stage and eventually become a sustainable business (Bushe, 2019; Enaifoghe & Ramsuraj, 2023). This trend is worrying because whenever an SME fails, it adds people back to the number of the unemployed worsening the challenge of unemployment. When support programmes are being made available and SMEs still fail, it shows that there are more challenges that need to be faced and addressed.

The effect of macro environment factors on SMEs

Scholars have demonstrated in various studies the significance of macro environment factors on SME existence. Ugwu et al. (2022) in their study of effects of the macro environment's political/legal and economic factors on SME performance found that these factors had a negative significant effect on SME performance. Similar to the current study, Ugwu et al (2022) study used a survey design, data was collected using a questionnaire and hypothesis were tested using statistical tools. This study looked at an SME as a whole not the different stages of existence. A negative significant relationship was the finding from their study for the establishment and the sustainability stages. The growth stage had a positive significant relationship.

In their study, Appiah et al. (2021) studied the conditional effect of macro environment factors on intention to invest. The partial least squares method was used to analyse their data. Results showed that technological, political, economic and environmental factors are related to SME intentions. Appiah et al. (2022); Khan et al. (2023) also studied the effect of the macro environment on SME start-ups and intentions to invest. Khan et al (2023) found that economic factors as well as corruption have a significant challenge on SME start-ups.

Singh et al. (2022) studied the influence of macro environment variables on overall SME success. Structural equation model was used to measure relationship of variables as well as contribution of SMEs to economic growth and employment creation. The macro environment factors tested were economic, environment, social, political, technological, and government. Findings of their study was that macro environment factors significantly influence SME success. Also, in a quest to find the effect of macro environment factors on SMEs, Mwika et al. (2018); Sarbah and Quaye (2021) only focused on the impact

of one macro environment factor, globalisation. The aim of their study was to determine whether globalisation has an impact on SMEs in developing countries. Primary data was collected using questionnaires and interviews. Their findings were that SMEs are negatively affected by globalisation.

It is quite evident that a large and growing body of literature has investigated the impact of the macro environment on SMEs as a whole without paying attention to the impact of the macro environment at the different stages of SME existence, namely the establishment, growth, and sustainability stages. Other studies only looked at a single stage of SME existence while excluding other stages. Kuratko et al. (2015) focused on growth and sustainability but excluded the establishment stage. The generalisation of much published research on this issue is problematic because SMEs at different stages are likely to respond differently to the macro environment challenges. On the other hand, other studies only focused on some macro environment factors leaving out others. The primary objective of this study was to investigate the effect of the macro environment variables on SME establishment, growth and sustainability in the Eastern Cape province of South Africa and the eventual influence on employment growth. In order to achieve the research objective, the following research question was developed:

What is the effect of the macro environment on each SME stage of existence?

The research question was translated into the following hypothesis:

H1: The macro environment will have a greater effect on SMEs in their growth stage compared to the other stages.

SME creation and survival

South Africa has a very low SME creation and survival rate. SMEs mainly fail at the establishment stage (Bushe, 2019). SMEs fail within the first five years (Institutional advancement, 2024). This signifies underlying constraints for SME establishment and survival. The high failure rate by SMEs signify their poor performance (Matekenya & Moyo, 2022). In a study to determine challenges and opportunities faced by SMEs in Limpopo, Debeila (2018) identified a high SME failure rate and attributed this to possible underlying challenges which are being faced by SMEs. Fatoki (2018) identified South Africa as a difficult country to do business in because the business environment is hostile, unstable and challenging. Similarly, SEDA (2019) cited that adverse business conditions in the country were affecting SME viability. This however is a generalised finding about all businesses. The impact of various factors would not be the same for SMEs at different stages of existence. For instance lack of access to finance might be due to the high cost of borrowing and lack of collateral, which might be more felt by new entrants than by those already established businesses. Due to these findings, it became of interest to investigate effect of macro environment factors at each stage of SME existence hence the question:

Which of the macro environment factors affect SME existence?

The research question was translated into the following hypothesis:

H2: Macro environmental variables will have a different effect on SME existence at different stages.

Despite a recognition and praising of SME's contribution to economic growth as well as the various initiatives aimed at promoting SMEs, the SME creation rate is very low in South Africa. The creation rate is one of the lowest, accompanied by high failure rate. In findings presented in the 2019-2020 Global Entrepreneurship report, South Africa was ranked amongst the top countries with the highest fear of business failure. The country ranked 4th out of 50 countries (Bosma et al., 2020).

Technological environment

SMEs must be able to keep up with continuous technological innovation. There exist contradicting findings in literature when it comes to use of technology by SMEs. Studies have revealed that by and large SMEs in South Africa have managed to embrace technology. In their investigation on the role of technology on SMEs in 2018/2019 study, SME South Africa (2018) found that most SMEs use smart phones in their businesses; Reddy, 2022 report that in the year 2021/2022 SMEs saw a need to embrace digital tools in order to reach customers amid the global COVID 19 pandemic. Thus most SMEs during this period embraced technology; Hojnik and Hudek (2023) also found that SMEs embrace technology. However, these findings are contrary to the finding of Achieng and Malatji (2022) that the incapability of SMEs to use improved and advanced technology due to a lack of skills and finance affects their productivity. They found that the government has not done much to help SMEs with technological advancement thus the competition from bigger and established businesses badly affects these SMEs. Also, implementing advanced technology such as online marketing makes an SME successful as they can reach out to customers and provide with their needs as well as products information. However, there is a supply, demand and knowledge gap in the SME sector. The rate at which technology is fast changing creates a supply, demand and knowledge gap to SMEs (Thaha et al., 2021). Thus lack of access of appropriate technology is affecting SMEs in South Africa.

Political environment

Political instability can also affect SMEs' existence as this is often associated with looting and damaging property. This challenge can mainly affect SMEs in their start-up and growth stages while established SMEs could have stronger security measures in place. Some SMEs are discouraged from even attempting to establish themselves due to political unrest, while those that are already established may not receive investments due to the risks that the unstable political environment poses (Bano et al. 2019). Often acquiring local resources may become difficult due to political instability yet when businesses resort to imports it increases their production costs and this in turn affect their profitability and growth (Bashir, 2023).

South Africa has a reputation of political instability which affects SMEs as most of the political unrest leads to low consumer spending thus negatively affecting SME profitability (Daisy Business Solutions, 2023). Political instability also lead to policy changes that may directly affect and lowers investment into SME businesses (Thomas et al., 2023).

Government support and legislation

Although government does a lot to support SMEs, it also often does things that seem to be creating stumbling blocks. Government legislation, for example policies and procedures, can cause a barrier to entry for aspiring SMEs and sometimes it can even help to bring about the failure of established SMEs. Licenses or permits and tariffs or taxes may affect SME existence as the SME owners may lack knowledge of laws and regulations (SME South Africa, 2018; Benedict 2019). Excessive red tape such as compliance to labour laws (minimum wage), tax related issues and municipal regulations negatively affect SME establishment and growth (Nieuwenhuizen, 2019). Corruption, bureaucracy, unclear processes, and ill-advised government legislation can be very detrimental to the existence of SMEs.

If SMEs do not receive enough governmental support they find it difficult to maintain their operations. They would lack resources to compete with bigger businesses (Ramasimu et al., 2023). Ogujiuba et al (2021) were of the opinion that failure of SMEs in South Africa is due to lack of government support in form of start-up or operating funds. To them, government support positively influence SME performance. Also, Pulane (2020) in a study to investigate the role of government support on SME performance where regression analysis was used to test the relationship between government financial support and SME performance. Findings were that there is a significant positive relationship between government financial support and SME performance. This result implied a reduction of financial burden to SMEs when there is government support hence continual business existence.

Infrastructure

Infrastructure is another macro environment element which is important for easy access to and from the business. Poor infrastructure has a very negative effect on SME existence. Lack of good infrastructure such as water, electricity, telecommunications, and transport affect a business' operations. Poor infrastructure affects the profitability and growth of a business as it increases its operational costs (SEDA, 2016; Myeko & Iwu, 2019).

South Africa is generally characterised by poor infrastructure and this affects business growth profoundly as businesses have to try and find other ways to cope with things like load shedding. The impact of poor infrastructure, however, would not be the same for SMEs at different stages. SMEs in South Africa face infrastructure challenges such as limited internet access and poor road conditions which affects

operations and increases costs as businesses are compelled to implement alternative contingency plans (SME South Africa, 2024).

In a study by Mugo et al (2019) carried out to determine the effects of infrastructure on SME growth in Kenya, a descriptive study was carried out where a questionnaire was the data collection instrument. Statistical tools of multiple regression were used to analyse the data. Findings and conclusions were that infrastructure had differing contributions to SME growth thus government need to provide infrastructure to promote SME growth in Kenya. Findings from Mugo et al's (2019) study of varied contribution to SME growth could signify an underlying reason for the difference in contributions by infrastructure. It is therefore the aim of this study to investigate the effect at different levels of SME existence.

Theoretical Background

Theories of SME existence include the theory of the growth of the firm, creative destruction theory and Solow's growth model (exogenous growth model). For this study, the theory of growth of the firm was used. According to this theory, a business is affected by a coordination of both internal and external factors. Thus the growth of an SME will be influenced by both internal and external factors and the SME's ability to embrace them (Penrose, 1959). This theory examines the ability of a business to adjust to changes in the macro environment. An SME's ability to do this will influence its growth.

As stated earlier, the macro environment variables in this study are the political environment, infrastructure, legislation, globalisation, technology and government. These macro environment factors were derived from the theory of the growth of the firm as well as various studies reviewed in the literature which did not focus on all the stages of business existence but on a specific stage only. Various definitions exist for explaining establishing or starting a business and there is no consensus to one definition. Age of incorporation can be used as a cut off for defining establishment (Ehsan, 2021). For the purpose of this study "establishment" refers to the starting point or inception of a new business, "growth" refers to an increase in output and turnover, "sustainability" refers to continued operations without a possible business closure looming in the foreseeable future.

Thus, the growth challenge for SMEs is how they respond to the macro environmental factors at each stage of their existence. This study therefore investigates the influence of the macro environment factors at each stage of SME existence and also the effects on unemployment at each stage. The above theoretical and conceptual discussion led to the development of the following research objective, questions and hypotheses for this study:

The current study will investigate the influence of macro environment factors at the different stages of SME existence and its impact on unemployment, the following research questions were developed:

What is the relation between SME establishment, growth and sustainability and employment?

The research questions were translated into the following hypothesis:

H3: Employment will grow as an SME moves from the establishment and then the growth stage to the sustainability stage.

The next section explains the research methodology used for this study.

Research Methodology

Design and Approach

A quantitative research method was used to test the hypotheses. The study obtained data from a large number of SMEs on the impact of the macro environment on their existence and how it would affect the employment rate. Due to its versatility a survey method was used to collect data from owners, managers and owner managers of SMEs in the city of East London in the Eastern Cape province of South Africa.

Population and Sample

A population of 179 908 SMEs in the Eastern Cape Province were formally registered in the first quarter of 2019 (Seda, 2019). According to the Raosoft sample size calculator a minimum sample size of 384 participants from this population was required. The study area was chosen because it has always been one of the areas with the highest rate of successive poor SME performance of all the provinces in the country. A probability sampling method was used where respondents were selected using simple random sampling. Participants were approached at a central business area where most SMEs operate their business. From the 400 questionnaires that were distributed, 390 were returned and used for the analysis.

Variables

Table 1 below illustrates the variables used in this study and therefore each construct, the measurement scale used and the source from which the constructs were derived. The dependent variables of this study were business establishment, growth, and sustainability as well as employment growth. The macro environment factors were the independent variables.

CONSTRUCT	ITEM	MEASUREMENT SCALE	SOURCE OF THE ITEM	Cronbach's Alpha
Government legislation-GPL	6	Likert scale	Appiah et al. (2021); Singh et al. (2022); Ugwu et al. (2022)	0.874
Political-POL	6	Likert scale	Bano et al. (2019); Appiah et al. (2021); Ugwu et al (2022); Bashir (2023);	0.925
Infrastructure-INF	6	Likert scale	SEDA (2016); Myeko and Iwu (2019)	0.849
Globalisation-GLB	11	Likert scale	Sarbah and Quaye (2021)	0.833
Technological advancement- TEC	7	Likert scale	SME South Africa (2018); Alm and Cox (2019); Appiah et al. (2021); Reddy (2022) Achieng and Malatji (2022); Hojnik and Hudek (2023)	0.885
Government-GovS	6	Likert scale	Majadibodu, Ramasimu & Ladzani (2023)	0.832
Business Establishment- BE	4	Likert scale	Khan et al. (2023)	0.758
Business Growth-BG	3	Likert scale	Khan et al. (2023)	0.884
Business Sustainability- BS	5	Likert scale	Kuratko et al. (2015); Appiah et al. (2022)	0.847
Employment growth- EMP-G	3	Likert scale	Al-Haddad et al. (2019)	0.846

Table 1: Study constructs

Data Collection

A questionnaire was designed and its measurement scales adopted from previous studies obtained from the literature review. A closed-ended questionnaire was self-administered by respondents with the help

of a field worker. Responses to the questions were based on a five-point Likert scale. A pilot study was done on 20 participants from sampled SMEs to pre-test the instrument before it was administered to the rest of the participants. Questions in the questionnaire were developed based on the literature reviewed, theories as well as research questions for this study. The Cronbach's alpha was calculated for each construct. All the constructs were deemed reliable as they were all above the acceptable score of 0.7 (see Table 1).

Data Analysis

The statistical package SPSS 27 was used to code data into numerical values and to clean it and was further exported to SMART Partial Least Squares for analysis. SMART PLS was used because it helps to explain the variance of a dependent target construct. SMART PLS was used to check the validity, reliability and relationship between the dependent and the independent variables used to develop a framework. The two steps used for the partial least squares were first evaluating the reliability and validity of the model by doing reliability, convergent validity, and discriminant validity for both dependent and independent constructs. Cronbach's alpha (CA), average variance (AVE) and composite reliability (CR) were used to measure convergent validity (Table 2). The Heterotrait-Monotrait (HTMR) ratio (<0.85) and the Fornell-Larcker criterion were used to check discriminant validity where square roots of the AVE were used to estimate. The square roots of the AVE should have higher values than the correlation coefficients for each of the latent constructs. As well, the criteria test for HTMR should show results below the threshold of 0.85 in order to rule out any problems of co-linearity among the latent constructs thus establishing discriminant validity.

The extent to which the independent variable explains the dependent variables was tested using the model path analysis measured by the R² value which should range between 0 and 1. Data normality was determined using the Shapiro-Wilk and Kolmogorov-Smirnov test. Results from the structural model were used to answer research questions and explain the causal relationship.

	VIF	EST	SUST	GROW	MACRO	CA	CR	AVE
EDU	2.325	0.910				0.847	0.906	0.764
MAN	2.539	0.913						
FIN	1.731	0.794						
MS	1.894		0.716			0.884	0.915	0.684
CS	2.870		0.892					
EM	1.948		0.801					
ES	3.366		0.879					
FS	2.604		0.836					
OBG	2.800			0.913		0.873	0.922	0.798
PRG	2.050			0.878				

SBG	2.495			0.888				
GLB	3.593				0.849	0.780	0.847	0.486
GPL	1.576				0.582			
GovS	2.512				0.650			
INF	1.757				0.616			
POL	1.406				0.586			
TEC	2.646				0.843			

Table 2: Instrument reliability and validity

The following section discusses the findings of the study.

Results

The primary objective of this study was to investigate the effect of the macro environment variables on SME establishment, growth and sustainability in the Eastern Cape province of South Africa and its eventual influence on employment growth. The results obtained in this study are discussed below.

Table 2 tests the reliability of the measurement model. Factor loadings are greater than 0.7 for all the variables except some factors of the macro environment that had to be dropped. The measure of internal consistency as shown by Cronbach's alpha (CA) >0.7 and average variance explained (AVE) >0.5. This result ascertains feasibility and reliability. In checking discriminant validity, the Heterotrait-Monotrait ratio results are <0.85 and the Fornell-Larcker criterion showed the square roots of all items' results being more than their correlation coefficients thus ruling out issues with discriminant validity.

Structural Model

The R² of the macro environment explains 0.178 of business establishment, 0.580 of business growth and 0.295 of business sustainability. These show the significant predictive power of the model as they lie within the 0 to 1 range.

	Relationship	Coefficients				Decision
		Std Beta (β)	SE	T	P-values	
	ME->BE	-0.240	0.073	3.291	0.001	Supported
	ME->BS	-0.282	0.078	3.640	0.000	Supported
	ME->GR	0.307	0.069	4.458	0.000	Supported
	EST -> EMP-G	-0.356	0.053	6.735	0.000	Supported
	GROW -> EMP-G	0.369	0.053	7.031	0.000	Supported
	SUST -> EMP-G	0.135	0.069	1.952	0.051	Not supported

Table 3: Structural model's PLS results (Source: Author's own calculations)

Table 3 shows the results obtained from testing relationships between variables. Results from the test enabled supporting or not supporting the hypotheses. The results of $\beta = -0.240$; $t = 3.291$; $P = 0.001$ show that the macro environment has a significant negative impact on business establishment. This result shows that the macro environment factors have an effect on SME existence in the establishment stage.

The results $\beta = 0.307$; $t = 4.458$; $P = 0.000$ show a significant positive impact of macro environment on business growth. This shows that macro environment factors have an effect on SME existence in the growth stage.

The results $\beta = -0.282$; $t = 3.640$; $P = 0.000$ depict the significant inverse relationship between macro environment factors and business sustainability. This implies that macro environment factors have an effect on SME existence in the sustainability stage.

Business establishment has shown a significant negative relationship with employment growth with a result of $\beta = -0.356$; $t = 6.735$; $P = 0.000$. A significant positive relationship is depicted regarding the impact of business growth on employment growth where $\beta = 0.369$; $t = 7.031$; $P = 0.000$, both results supporting hypothesis H3. However, our analysis for the relationship between business sustainability and employment growth with the result $\beta = 0.135$; $t = 1.952$; $P = 0.051$ does not reveal a significant relationship, contrary to hypothesis H3.

Discussion

With an aim to investigate the effect of the macro environment variables on SME establishment, growth and sustainability in the Eastern Cape province of South Africa, the results obtained show a significant negative relationship between macro environment factors in both the business establishment and business sustainability stages of SMEs. This result implies that every change in macro environment variables result in a corresponding decrease in business establishment and sustainability. A positive significant relationship of the macro environment variables on business growth signifies that a business

which embraces macro environment changes would experience growth. These findings answer the research question: “what is the effect of Macro Environment on each SME stage of existence”. This finding is consistent with the findings of Gini and Agala (2023) who conclude that macro environment factors affect SME establishment and growth. The theory of the growth of the firm also asserts that the growth of a business is influenced by the external environment (macro environment) forces.

The beta value as obtained in the results above is greatest in the growth stage of an SME’s existence as compared to the establishment and sustainability stages. This implies a greater effect of the macro environment factors on the growth stage. Therefore, we accept H1 that the macro environment will have a greater effect on SMEs in the growth stage compared to the other stages.

Also, the beta values differ for each stage. The sustainability stage has the lowest value followed by the establishment stage while the growth stage has the highest. Differences in the beta values show the differences in the extent of the effect of macro environment variables at the different stages of SME existence. Thus we accept H2 that macro environment variables will have a different effect on SME existence at different stages. These findings are an extension to literature as most studies focused on the overall effect of macro environment on an SME as a whole without identifying the extent of effect on each stage of SME existence.

The positive relationship between business growth and employment growth implies that businesses that grow are more likely to employ more people. This finding is consistent with findings by Gregori and Holzmann (2020) and Enaifoghe and Ramsuraj (2023) who concluded in their studies that SMEs’ growth results in new job creation thus reducing unemployment. Results of relation of business sustainability on employment was not supported. This result does not necessarily mean that SME sustainability is irrelevant as it can still have an effect on employment. However, in the current study business sustainability’s influence on employment growth was not detected with sufficient confidence. This finding could imply that increased employee retention dominates sustainable SMEs thus they contribute less to employment growth (Yusoff et al., 2018; Abisuga-Oyekunle et al., 2020). A significant negative relationship exists between business establishment and employment growth. This finding is in contrast of the expected result of SME establishments creating employment. Findings in this study imply that creation of new SME does not always necessarily lead to employment growth, other underlying barriers could be hindering employment creation. This finding deviate from the status quo in literature and would require a further empirical study to unfold any possible causes. The findings for SME establishment and growth support H3 that “employment will grow as an SME moves from the establishment and then the growth stage to the sustainability stage” however findings for the sustainability stage does not support the hypothesis. The findings of the relationship between SMEs at different stages of existence and

employment growth answers the research question “what is the relationship between SME establishment, growth and sustainability and employment.

Conclusion

The study examined the influence of macro environment factors on SME existence and how their existence would influence employment growth. It was found that macro environment variables have an influence on all the three stages of SME existence. This implies businesses need to take note of the prevailing trends and any changes in the macro environment for them to be established successfully, grow and to be sustainable.

However, the results also reveal that the macro environment has a greater impact in the growth stage compared to the other stages. SME establishment and growth also significantly influence employment growth. The larger percentage of employment growth is experienced in the SME growth stage. This result require that more attention be given to macro environment factors so as to promote SME growth which would in turn lead to increasing employment.

The study has also found that the sustainability stage does not significantly contribute to employment growth. This might be attributed to the fact that SMEs at this stage have the ability to adjust to changes in the macro environment which include technological advancement. By embracing technological advancement a business may become labour extensive hence there is no need to employ more people but retain the existing skilled employees or even cut down on employees while rather making use of machinery and equipment. This finding is similar to that of Yusoff et al. (2018) that there is no employment growth due to employee retention. However, this current study identified the influence of the macro environment factors as the reason for employee retention thus an SME in the sustainability stage contributes little or nothing to employment growth. For every SME to pass the establishment and growth stage it has to embrace the macro environment trends to reach the sustainable stage. Therefore, even though the results show no significance at the sustainability stage, macro environment factors do influence the SMEs in rising to become sustainable. SMEs failing to pass the establishment and growth stages would mean no sustainability stage.

The limitations of this study were that data were collected only from the city of East London in the Eastern Cape Province and were generalised for the whole province. It is recommended that further studies of this nature be done in the excluded remote places as well as collecting data from at least three or four different areas to improve the generalisability. A study that is similar in nature can be done to increase the credibility of this study and its results. Further studies are also recommended to research why the influence of macro environment factors is insignificant to an SME at the sustainability stage. A study similar in nature can be done in future to test any mediation effects.

The results of this study suggest that the government's SME support programmes ought to also focus on equipping owners to be able to do environmental scanning to become flexible and quick to change. Also, the support offered for the various stages of SMEs should be suitable for that particular stage since the extent of challenges of the macro environment as well as employment growth vary at each of the three stages of SME existence.

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