

# Challenges faced by small, medium and micro enterprises in Gauteng: A case for entrepreneurial leadership as an essential tool for success



## Authors:

Thabisile Mhlongo<sup>1</sup>   
Preeya Daya<sup>2</sup> 

## Affiliations:

<sup>1</sup>Department of Leadership and Complexity, Faculty of Management Sciences, Durban University of Technology, Durban, South Africa

<sup>2</sup>Graduate School of Business, University of Cape Town, Cape Town, South Africa

## Corresponding author:

Thabisile Mhlongo,  
thabs.mhlongo2@gmail.com

## Dates:

Received: 08 July 2022

Accepted: 29 Nov. 2022

Published: 04 Apr. 2023

## How to cite this article:

Mhlongo, T. & Daya, P., 2023, 'Challenges faced by small, medium and micro enterprises in Gauteng: A case for entrepreneurial leadership as an essential tool for success', *Southern African Journal of Entrepreneurship and Small Business Management* 15(1), a591. <https://doi.org/10.4102/sajesbm.v15i1.591>

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**Background:** Traditional approaches to managing and leading in entrepreneurial systems, founded on traditional, reductionist and linear thinking, could have issues coping with the inherent uncertainties, complexity and dynamics of such circumstances. Entrepreneurial leadership is acknowledged as an important competency that entrepreneurs could adopt to enhance their leadership development and competitive and sustainable growth for their businesses.

**Aim:** This research study sought to evaluate leadership challenges that affect the performance and the Gauteng province's small, medium and micro enterprises (SMMEs) sustainability.

**Setting:** This study focuses on SMMEs in the Gauteng province.

**Methods:** In this qualitative study, a systems dynamics approach was used to explore the impact of the various leadership problems and dynamics influencing the SMME performance in the Gauteng province. Semi-structured interviews were conducted with 46 entrepreneurs, followed by creating causal loop diagrams to understand how system variables and components produce behaviours in interactive patterns within the entrepreneurial system.

**Results:** Findings of the study revealed that SMMEs consistently suffer from relatively high levels of failures and lower performance levels caused by: (1) a lack of entrepreneurial leadership skills, (2) a lack of financial resources and/or finances, (3) a lack of financial education, (4) infrastructure constraints, (5) a lack of training, (6) a lack of technology and (7) crime and corruption.

**Conclusion:** This study highlights that the entrepreneurial context in South Africa is dynamic and complex in nature and is limited by entrepreneurial leadership capabilities and a weak understanding of the business environment.

**Contribution:** This study employs a system dynamics approach that entrepreneurs can use to understand and solve important, complex socio-economic and sustainability problems that they encounter.

**Keywords:** entrepreneurs; SMMEs; systems thinking; system dynamics; causal loops; leadership; entrepreneurial leadership.

## Introduction

Small, medium and micro enterprises (SMMEs) are recognised as essential contributors to growth in developing, economic development and developed countries (Amra, Hlatshwayo & McMillan 2013; Moise, Khoase & Ndayizigamiye 2020). Muriithi (2017) contends that enterprises account for over 90% of businesses in both developed and emerging economies via job creation, employment, taxation and contribution to gross domestic products (GDP). Small, medium and micro enterprises play a significant role in developing countries and offer solutions to unemployment, poverty and low-income challenges. Small, medium and micro Enterprises influence the national output, job creation, poverty reduction and elimination of economic inequality in numerous economies worldwide (Organisation for Economic Cooperation and Development [OECD] 2018). Small, medium and micro enterprises are considered as the backbone and heartbeat of a country's economy (Bvuma & Marnewick 2020; Karagiorgos et al. 2020; Leboea 2017). Small, medium and micro enterprises face various obstacles, from a lack of available talent to problems optimising their value chains, implementing new ideas and running their businesses (Telukdarie et al. 2022).

Almost 90% of businesses operating in South Africa are regarded as SMMEs and account for over 80% of the economy's employment and more than 50% of South Africa's (GDP) (Petersen, Bruwer & Mason 2020). Ndou (2014) and Chimucheka (2013) observe that the South African government has recognised the significance of SMMEs to the South African economy. Similarly, Bhorat et al. (2018) indicate that the government has recognised the growth of SMMEs as a potentially sustainable solution for eliminating poverty and reducing inequality through creating employment opportunities. Entrepreneurs are an essential source of job creation with long-term positive externalities realised through increased employment growth rates and incomes earned.

Notwithstanding the South African government's efforts to promote entrepreneurship via laws, strategies and programmes, many SMMEs continue to be unsustainable (Cant & Wiid 2016) resulting from the numerous challenges that they face. Studies have revealed that compared with other developing nations, South Africa has one of the higher failure rates for SMMEs, with a failure rate of between 60% and 80% during the first and second years of business (Leboea 2017; Mthabela 2015). These findings reveal the daily challenges and bottlenecks that SMMEs face, which influence their sustainability. Lampadarios (2015) and Nkonge (2013) observe that the systemic and continued failure rate of SMMEs harms the economy in the short and long run. Fonseca et al. (2012) point out that the business environment in South Africa is very dynamic and affirms that the high failure rate and low entrepreneurial activity among SMMEs suggest inadequate entrepreneurial leadership capabilities and an insufficient understanding of the business environment.

## Literature review

### The contribution of small, medium and micro enterprises in an economy

Small, medium and micro-sized companies play a significant role in net exports, employment creation, poverty eradication and the decrease of income inequality in many nations throughout the world. They also contribute to economic growth (Zulu 2021). The importance of SMMEs in the South African setting is still at the forefront of policy deliberations, according to Mohamed, Yasseen and Nkhi (2020), particularly given that SMMEs help to expedite socio-economic growth. In continued attempts to enhance SMME growth, the South African government has produced a number of relevant policy interventions outlined in the National Development Plan. For instance, in 2014, the Department of Small Business Development (DSBD) played a vital role in the government's initiatives to accelerate economic change by fostering the creation of competitive, sustainable entrepreneurs, small enterprises and cooperatives (Mnguni 2018). The DSBD promotes small businesses in navigating the legal and administrative system and enhances efficient access to financial markets. Before establishing the DSBD, the

government previously offered the necessary support to SMMEs through capital funding and business incubations. Equally, the Department of Trade and Industry (DTI) formulated a series of steps to encourage SMMEs' growth by providing several organisational support and development processes or services.

The National Development Plan (NDP) highlights the role SMMEs play in economic growth, removal of inequalities and poverty reduction. In continued attempts to enhance SMME growth, the NDP committed to create approximately 11 million job opportunities required in South Africa by 2030 to the SMME sector and equally decrease the unemployment rate by approximately 6% (Mnguni 2018). Of concern is that SMMEs in the country continue to face an inimical business environment (Bowmaker-Falconer & Herrington 2020). With the increase in unemployment rates in South Africa, it is imperative to offer the necessary support to SMMEs to reduce unemployment (Bhorat et al. 2018; Bushe 2019; Herrington, Kew & Kew 2015; Herbst & Gills 2015).

### Challenges in the entrepreneurial system in South Africa

Studies reveal that when compared with other developing nations, South Africa has one of the highest failure rates for SMMEs, with a failure rate of between 60% and 80% during the first and second years of business (Leboea 2017; Mthabela 2015). The high failure rate can be linked to the entrepreneurial climate, which is not beneficial to the expansion and growth of businesses (Matekenya & Moyo 2022). The 2015 SMME Growth Index headline results indicate that external factors and challenges impeding small business growth include arduous regulation high labour expenses, a lack of funding, challenging local economic circumstances, high municipal costs, poor service delivery and increased competition.

Mazzarol (2015) and Koryak (2015) have shown that the lack of managerial experience and skills, low entrepreneurial culture and obstacles to market access are some notable reasons responsible for the failure of SMMEs. According to Kongolo (2010), insufficient institutional support and financial resources have an impact on the sustainability and effectiveness of South African SMMEs. This is supported by Van de Vrande et al. (2009), who explain that in comparison with larger enterprises, SMMEs have weaker connections with other organisations, making it harder for them to get the information required to sustain their objectives (Dodourova & Bevis 2014). The challenges to the sustainability of SMMEs can be linked to poor management and leadership skills attributed to a lack of leadership experience and inadequate training and education, which affects technical and management competence (Chimucheka 2013; Hossain 2015).

The actual world is unclear and complicated, which presents a variety of difficulties for business people (Gregory & Miller 2011). Managers are challenged by the interconnection of people, ideas and beliefs as they attempt to 'make sense' of the world around them. Entrepreneurs must recognise the

complexity of the environment they operate in today and recognise that there is no 'easy' way to overcome the difficulties they confront (Caldwell, Harris & Renko 2012). The strategic models on which management choices are based, according to Rajagopal (2012:209), 'need to be more comprehensive than ever, owing to a closer coupling among diverse components of the environment'. To reach this outcome, the ability of business people to think holistically and address systemic issues is to be improved. This can be performed by broadening the understanding of systems thinking and of systems in entrepreneurial contexts.

## Entrepreneurial leadership

Leadership is an important entrepreneurial skill because it ensures that action is strategically directed to enabling the required outcomes. Good leadership has been identified as one of the essential factors contributing to SMEs' success (Madanchia et al. 2016b). According to Abdelkafi and Täuscher (2015), leadership is a component or method that motivates groups of people to achieve a common objective. However, SMME failure is primarily because of inadequate and subpar leadership abilities (Razak 2011).

One of the most significant issues confronting SMMEs in terms of management and technical knowledge was attributed to the lack of leadership abilities (Mhlongo 2021). Poor management abilities caused by insufficient training and education and a lack of business sustainability skills might be connected to the absence of a long-term business success vision (sustainable initiatives) in SMMEs (Adendorff, Emuze & Vilakazi 2013; Hogeforster 2014; Kalane 2015; Leboea 2017; Ngibe & Lekhanya 2019). It is also said that SMMEs lack the knowledge and resources to implement the necessary organisational reforms (Singh & Wasdani 2016).

According to Hashim, Ahmad and Zakaria (2012), it is becoming harder for executives to manage their firms in the 21st century successfully. As a result of its potential to help one recognise their value in the entrepreneurial process, leadership is significant as an entrepreneurial behaviour. As such, fostering innovation and adapting to shifting environments is essential (Mamun, Fazal & Muniady 2019; Renko et al. 2015). As a result of the complicated and non-linear nature of organisations, it is not possible to establish a single, practical theory of leadership or leadership effectiveness (Osborn & Marion 2009). Leadership in entrepreneurship (use of leadership to provide successful entrepreneurship in driving a business to success) has been identified as an important skill that company owners might use to create sustainable and competitive growth for their companies (Lubis 2017). Leitch and Volery (2017) emphasise the need to consider the cognitive, interpersonal and social complexity of leadership in SMMEs and the necessity to grasp the mechanisms that would explain results. According to Leitch and Volery (2017), studying and comprehending entrepreneurial leadership is necessary to further the field's knowledge of small enterprises.

The autonomous areas of entrepreneurship and leadership are seen to be converging and the blending of ideas from the two professions has resulted in the creation of a new, all-encompassing construct known as 'entrepreneurial leadership' (Cogliser & Brigham 2004; Fernald, Solomon & Tarabishy 2005). Balogun, Bartunek and Do (2015) define leadership in entrepreneurship as a distinct type of leadership that predominantly concentrates on dealing with challenges and complex matters and crises in organisational settings. For the authors, the notion of entrepreneurship leadership thus stems from a process whereby people who pursue entrepreneurial intentions and opportunities work collaboratively with others, using different cognitive methods to understand and respond to systems.

Dauids (2012) states that the four key entrepreneurial leadership strategies include attention by vision, importance via communication, trust via placement and confidence via respect as the cornerstone of entrepreneurial leadership success. These models are essentially connected to leadership behaviour, which seeks to integrate appropriate leadership philosophies with appropriate degrees of development for each person to achieve specific goals (Ebere & Fragouli 2015).

Leitch and Volery (2017) and Renko et al. (2015) identify three approaches to the entrepreneurial leadership theory. According to the first theory, entrepreneurial leadership is a procedure that an entrepreneur participates in because it is a development of the area of entrepreneurship (Leitch & Volery 2017). This theory states that an entrepreneurial leader is an entrepreneur who can seize opportunities, take calculated risks and inspire a group of followers (Leitch & Volery 2017). The second perspective views an entrepreneurial leader as a typical leader with an entrepreneurial spirit and attitude, regardless of the organisation he works for, even if that organisation is enormous. This view relates entrepreneurial leadership to the area of leadership (Leitch & Volery 2017; Renko et al. 2015). The final strategy places entrepreneurial leadership at the intersection of business and leadership. Entrepreneurs are leaders by definition, and their leadership style is authentic leadership (Leitch & Volery 2017). Harrison, Agnew and Serido (2015) recognise that context is essential when studying entrepreneurial leadership because models, ideas and analytical frameworks that work well in one field could not work in another.

Even though entrepreneurial leadership is a relatively new concept, Simba and Thai (2018) claim that it has been used to identify management development and growth-related problems in small enterprises. It is recognised as a leadership style developed to create strategic wealth (Gupta, MacMillan & Surie 2004). This perspective has been expanded and emphasises the significance of identifying and seizing business opportunities (Hejazi, Maleki & Naeiji 2012; Renko et al. 2015). For the entrepreneurial activities to assist the development of more vital skills, resulting in organisational performance, entrepreneurial leadership strongly focuses on adopting a strategic approach to entrepreneurship. Management is

practical and geared at resolving issues and adding value to the marketplace (Surie & Ashley 2008). Therefore, entrepreneurial leadership may be defined as a style of leadership that an entrepreneurial leader employs while taking business risks, being proactive and coming up with new ideas. Entrepreneurial leaders tend to be creative, driven by success, enthusiastic, quick to seize opportunities and imaginative and the main objective (Davids 2012).

The entrepreneurial leadership skills provide entrepreneurs with personal competencies and skills to be cognisant of the changes in the global and local business environment, together with the effective inception and/or transferal of the individual SMME values and strategies among the company's team members, at all levels. To do this, entrepreneurs must know their strengths, weaknesses and leadership styles, as well as know what they eventually want to accomplish. Entrepreneurs should make the most of their strengths to expand and develop their companies while gaining a competitive edge and long-lasting building enterprises (Palalic et al. 2017). Entrepreneurial leadership helps company owners to build new ideas and spot possibilities to see a prosperous future for their companies.

### Systems thinking approaches

The very complicated and dynamic business environment continues to be a problem for SMMEs, as seen by their comparatively high failure rates and subpar performance levels (Maani & Cavana 2007). The problems brought on by the rapid advancement of economic, technical, social and environmental development also contribute to the complexity of the corporate environment (Maani & Cavana 2007). The dynamic complexity of the business environment must be appropriately recognised and dealt with if SMMEs are to achieve their targeted goals and remain sustainable over the long run. To successfully handle these dynamic complexities and comprehend how the framework of complex systems, such as an entrepreneurial system causes system complexities, entrepreneurs must be skilled in systems thinking.

According to Balogun, Agumba and Ansary (2018), for SMMEs to generally improve their contribution to the economy of the nation and job creation, South Africa must create an enabling environment and entrepreneurial system that enables entrepreneurs to grow. For the sector to reach its claimed potential, studies that aim to strengthen SMMEs' resilience and their entrepreneurial leadership competencies (such as systems thinking skills) are important.

Through systems thinking intervention by business owners, the growing failure rates of SMMEs observed in the research may be significantly reduced. However, one of the biggest challenges that policymakers face is how to devise appropriate strategies and policies for SMMEs that could attain business sustainability in highly complex and dynamic entrepreneurial contexts. With the help of systems thinking, entrepreneurs may have the solution to the existing business

challenges through engagement in holistic and non-reductionist thought processes. To ensure the survival and sustainable growth of small businesses in dynamic environments, understanding the system dynamics and system thinking approach that should be applied in dealing with distinct factors attributed to entrepreneurs' leadership skills remains central.

Following Rashed, Deluyi and Daud (2015), Tofighi, Teymourzadeh and Ghanizadeh (2017) and Afzal, Siddiqui and Dutta (2018), entrepreneurial complexities are best viewed and analysed using dynamic systems approaches.

### System dynamics

Abdelkefi and Täuscher (2016) consider system dynamics a strategic approach or technique for re-organising complex systems and examining their behaviours. Rengkung (2018) describes system dynamics as a modelling mechanism that examines necessary resources and abilities in a particular system for assessing and understanding the complex systems in which changes happen within the business environment over time. The most commonly employed model in system dynamics includes causal loop diagrams (CLDs) and stock-and-flow diagrams (SFDs). Causal loop diagram indicates a causal loop among the distinct groups of components and/or variables, whereas SFD is designed from the CLD to focus on the physical structures (Rengkung 2018).

In system dynamics, the focus is always on understanding how system variables and components produce behaviours in interactive patterns within a system. System dynamics have formulated specific patterns and symbols to represent them; the variables and feedback loops take centre stage. Naidoo (2015) argues that system dynamics offers an approach for mapping and modelling scenarios that happen in the real world in distinct and described settings. Monat and Gannon (2015) argue that the behaviour of components in the height of systems thinking offers counterintuitive; therefore, system dynamics and modelling are incorporated to improve the general understanding of the system's behaviours over time. Abdelkefi and Täuscher (2016) believe that the system dynamics process enables modelling and simulating through integrating feedback loops of those same systems. Including the real-scenario feedback loops allows entrepreneurs to alter the system to attain a competitive advantage compared with their competitors and improve overall business performance.

Business organisations are often established to solve one or more socio-economic issues, making the system dynamics approach critical. This can be accomplished through understanding the system's dynamic structure that captures detailed facts, human response, sources of information and other direct and indirect factors, thus giving entrepreneurs an in-depth understanding of the status of the business and its complexities (Tang & Vijay 2011). The simulations established from the system dynamics models assist in

coming up with suitable organisational policies and processes, enabling the business leaders to decompose a complex characteristic or social system into distinct elements, then coalescing them again to be envisioned and analysed to distinguish the eventual effects.

## Aim and objectives

This study sought to investigate leadership challenges in the entrepreneurial system that impact SMMEs' performance and sustainability in the Gauteng province. The study also intended to broaden the understanding of how a systems dynamics approach can be applied in entrepreneurial leadership towards addressing the complex dynamics faced by entrepreneurs in the entrepreneurial system. As such, the study aimed to explore the research questions: how the leadership challenges and complexities interact with each other in an entrepreneurial system and what constitutes an integrated conceptual system model that captures the systemic feedback loops, processes and structures governing the system behaviour?

## Research design

The data and findings reported here were part of a larger research project, which adopted a holistic system thinking approach and pragmatic technique, based on a mixed-methods research method comprising semi-structured interview and system dynamics modelling strategy. This article reports only on the qualitative component of the study, and in particular, the data and findings related challenges faced by SMMEs in Gauteng province.

Researchers ought to select a research design to achieve the research's goal; it is also critical to select an appropriate research design. According to Leedey and Ormrod (2015), a study design is a structure or plan used to collect and analyse data. Furthermore, the research design is the overall strategy for the study (Saunders, Lewis & Thornhill 2016). According to Saunders et al. (2016) and Sekaran and Bougie (2017), there are six research designs: explanatory research design, experimental research design, causal research design, correlational research design and descriptive research design. An exploratory research design was used in this study. 'An exploratory investigation is performed when nothing is known about the situation at hand or no information is accessible on how similar problems or research topics have been managed in the past' (Sekaran & Bougie 2016:103).

## Research approach

In this qualitative study, the approach was deemed suitable to investigate phenomena in a particular context. In this case, it was used to investigate leadership challenges within the entrepreneurial context to understand the existing problem better. Inductive methodology and interpretivism philosophy are often linked to qualitative research (Saunders et al. 2016). According to interpretivist epistemology, social interaction

produces all knowledge and reality. They are produced because of interactions between people and their surroundings, and reality is connected to the social context (Green 2017). An inductive approach in a research study concerns the context in which a phenomenon occurs. The study began with semi-structured qualitative interviews and created CLDs. We used CLDs to show we empirical findings from SMME entrepreneur interviews and workshop discussions. The CLD approach is frequently used to demonstrate the causal links between various interacting variables, time delays, non-linear effects and feedback loops. It is an appropriate investigative approach for such scenarios (Serman 2000). To use this method, the entrepreneurs' stories or narratives were reviewed from interviews and workshop discussions to identify the primary variables that emerge from the data and construct causal relationships between variables.

## Setting

The study's population consisted of SMMEs from the cities of Johannesburg, Ekurhuleni and Tshwane in the Gauteng province. These SMMEs belonged to different sectors, including agriculture, mining and quarrying, manufacturing, electricity, gas and water construction, retail and motor trade, repair services, wholesale trade, catering, accommodation and other trade, transport, storage and communications, finance and business services, community and social and personal services.

## Study population and sampling strategy

Newman, Newman and Newman (2011) define the study's sample as 'a small set of cases a researcher selects from a large pool and generalises to the population'. The purposive sampling technique was used to select 46 entrepreneurs who were in business over 1 year. The inclusion criteria were that the entrepreneurs needed to reside in the Gauteng province and operate a business from either the cities of Johannesburg, Ekurhuleni or Tshwane. Purposive sampling, one of the most common sampling techniques for qualitative designs, was used in the study and is very popular among researchers in the social sciences (Mack et al. 2005). The sample size of this study was large enough to provide a deep understanding of challenges within the entrepreneurial system and the creation of CLDs and modelling phases of the research process.

## Data collection

To collect rich data, semi-structured interviews were performed with 46 entrepreneurs. A semi-structured interview is a popular qualitative data-collecting approach. According to Bryman (2008), semi-structured interviews are best suited to studies in which certain lines of inquiry must be examined while allowing the interviewee to provide subtlety, commentary and new themes for consideration. The purpose of the interview was to elicit respondents' perspectives on the leadership problems that entrepreneurs encounter in their entrepreneurial environments.

## Data analysis

To convert the interview data to CLD, the researcher followed the processes outlined by Sterman (2000). During the first step of data collection, participants were asked to evaluate the entrepreneurial system's leadership problems and complexity. Basic CLDs were created based on the critical factors during the coding process. The second phase involved further analysis of the interview data and workshop discussions to determine the causal relationships between topics. The CLDs were then refined by specifying specific correlations between variables to explain variations in performance over time. These were then combined into unified diagrams with a single set of feedback mechanisms capable of describing the many behavioural patterns observed in this research. As the model evolved, we examined each connection in the CLD to see whether the apparent relationship was validated by field data or previous research. This stage assisted us in ensuring that the model was founded on the acquired data and adhered to the main principles of decision-making and strategic management literature.

## Ethical considerations

Ethical clearance to conduct this study was obtained from the Durban University of Technology Faculty of Management Sciences Research Ethics Committee (No. 3/18FREC). The key ethical issues for this study were maintaining participants' anonymity by securely, discreetly keeping data and writing up the findings in a way that did not reveal identifying characteristics. Participants received comprehensive information about the research and were told they may leave at any moment without being penalised. Before data collection, the researcher's university's research ethics committee authorised the project.

## Results

Results and findings from the information gathered from semi-structured interviews and the data analysis are outlined in this section.

This study highlighted a variety of internal variables that provide leadership problems, including crime and corruption: (1) a lack of financial resources or finance, (2) a lack of human resources, (3) insufficient financial education, (4) infrastructure restrictions, (5) insufficient training, (6) insufficient technology and (7) poor entrepreneurial leadership qualities. The interview data and critical factors were subsequently examined to determine the causal relationships between themes. These themes and connections served as the foundation for the development of CLDs. Causal loop diagrams are possibly the most widely used system visualisation, communication and modelling tools in system dynamics. They may be used to develop a preliminary causal hypothesis for the subject under investigation and simplify the model's depiction (Sterman 2000; Tsai & Coyle 2002). Feedback loops can be either reinforcing (virtuous or nasty) or balanced (stabilising or goal seeking). The

relationship between the number of births and population increase is an example of a positive correlation. Figure 1 indicates that all else being equal, more births result in a larger population, whereas fewer births result in a smaller population.

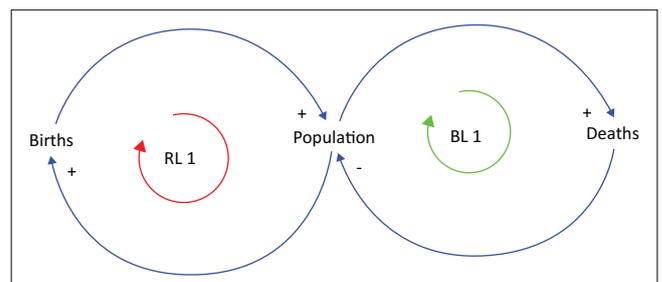
This relationship is shown in Figure 1 by adding a '+' sign to the arrowhead. There is a negative correlation between the population growth and the number of deaths. A lower population results from more deaths, and a higher population results from fewer deaths.

Variables were categorised into CLDs as they were determined by the main themes that developed from the information. A comprehensive SD model was produced after these CLDs were combined and the connections across the several loops were determined. The combined and merged system model presents the merged loops in the leadership and entrepreneurial strategies depicted in Figure 2.

The model comprises 12 reinforcing loops (RL) and 7 balancing loops (BL), namely finance, operations, the external environment and communication are the major components of the merged model. The diagrams depicting the loops were developed using Vensim system and they represent the research findings as depicted in Figure 2. The individual CLDs are discussed here.

Figure 3 presents the environmental complexity and change causal loop depicting the difficulties of contemporary leadership, the continuation of traditional viewpoints on producing entrepreneurs and the growing divide between entrepreneurs and management leadership capabilities required to respond to business challenges and traditional leadership approaches prove futile. In the face of traditional leadership's inability to deal with complex challenges, leading to increasing complexity. When it comes to solving complex problems, traditional ways of leading are not good (Norcini et al. 2018). This is because according to Norcini et al. (2018) traditional leadership approaches can neither meet evolving requirements nor align with them.

The dynamics of regulatory compliance are depicted in Figure 4, which shows that while the widespread availability



Source: Sterman, J.D., 2000, *Business dynamics. Systems thinking and modeling for a complex world*, Mc-Graw Hill/Irwin, International Edition Irwin McGraw-Hill, Boston, MA.

RL, reinforcing loop; BL, balancing loop.

**FIGURE 1:** A causal loop diagram.



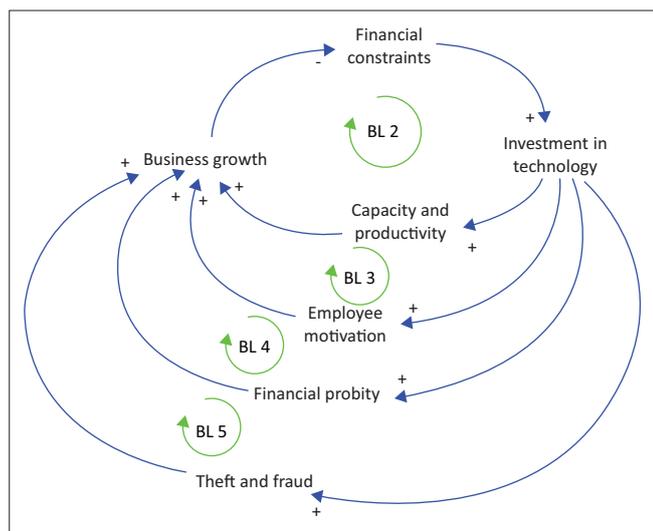


FIGURE 6: The capacity and productivity causal loop diagram.

The lack of technology and leadership skills among SMME managers and owners can be described by the fact that they do not have enough money for education and training, which impacts managerial competency and business growth (Arasti, Zandi & Bahmani 2014; Cho & Gumeta 2015; Zarefard & Beri 2017).

Figure 6 depicts the capacity and productivity loop, which highlights the impact of financial constraints on investment in technology, and the ripple effect that this has on the business capacity and productivity (BL 2), employee motivation (BL 3), financial probity (BL 4) and incidence of theft and fraud (BL 5). Insufficient investment in technology negatively influences capacity and productivity in the business also affects employee motivation, capacity and productivity. This ultimately exposes businesses to unethical conduct, the risk of incidence of theft and fraud. Technology is significant to entrepreneurship in the same way that it is vital to the progress of SMMEs. The use of technology helps a business be more productive, quick to respond and good to its customers (Dewa et al. 2014). This means that a business must use technology if it wants to improve its performance and profitability, which are important measures of how well it is doing (Dubihlela & Sandada 2014).

The competition dynamics shown in Figure 7 illustrates that, even though globalisation benefits small and medium-sized enterprises greatly by providing the possibility for faster, more sustainable growth, this has increased competitive pressures on businesses to remain competitive (BL 6). Coupled with rapid technological change, globalisation has altered the competitive environment in which SMMEs operate. The competitiveness of SMMEs is heavily influenced by the management competencies of business owners (Cong & Hai 2015). However, SMMEs are insufficiently equipped to face increasing pressures from globalisation. Because of their limited resources, low managerial competence and lower productivity, many have found it difficult to compete; thus, SMMEs' competitiveness has become a major challenge. Small, medium and micro enterprises face a particular

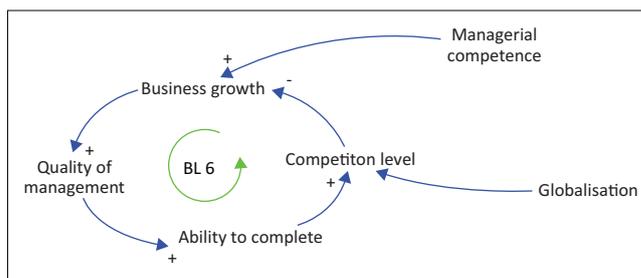


FIGURE 7: The competitiveness dynamics causal loop diagram.

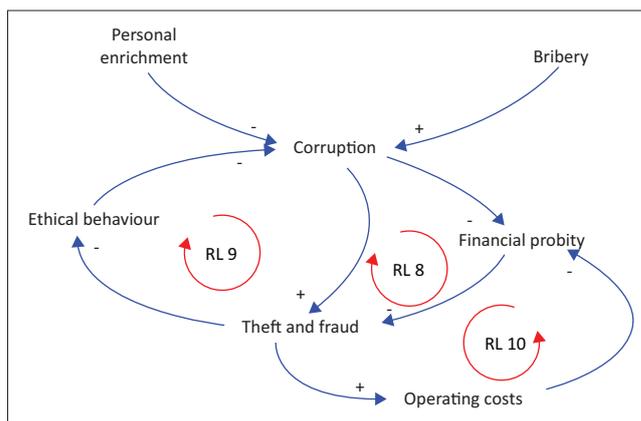


FIGURE 8: The internal controls and ethical causal loop diagram.

challenge regarding their competitiveness because they cannot spare the personnel as they need them for day-to-day operations.

Figure 8 depicts internal controls and ethical dynamics demonstrate the inefficiency of internal controls that the sheer size of the SMME limits its financial resources and capabilities and increases the lack of internal controls (RL 8) and unethical business behaviour (RL 9), thus increasing business costs (RL 10). Small, medium and micro enterprise face problems such as how to use information technology well and how to quickly get to the right degree of financial excellence. The problem is made worse because business owners see internal controls more as a safety measure than as a way to reach organisational goals and make fewer mistakes. It is essential to understand this dynamic because many small businesses do not have good internal controls, which leads to unethical behaviour and higher costs. Wilkins and Haun (2014) say that many small businesses think internal controls are too expensive and unnecessary.

Finally, Figure 9 depicts the crime and security dynamics and demonstrates the reinforcing loop of enhancing business growth through enhancing safety and security (RL 11). Standard reinforcement loops are required for funding service investments (RL 12), whereas the balancing loop BL 7 represents the loss and expenses because of crime within the organisational system. The level of security increases and positively impacts business growth increases. Any company that hopes to thrive and expand must first meet two prerequisite conditions: an environment with a low incidence

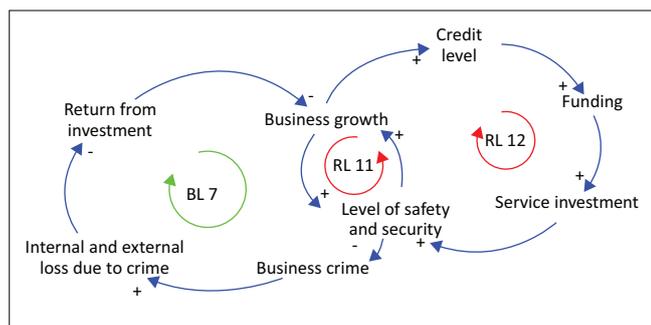


FIGURE 9: The crime and security causal loop diagram.

of crime and a high degree of security. However, business crime increases the internal and external loss to crime, decreasing return on investments and business growth. According to Bushe (2019), in South Africa, more than any other African nation, a company would undoubtedly spend extra for safety services to protect its assets and survival. This exerts much burden on SMME funds, which might be used to boost other businesses.

## Discussion of findings

Our study contributes to the body of knowledge in several ways.

Firstly, this study has examined entrepreneurial leadership within the SMME context. By doing this, we have answered Leitch and Volery's (2017) call for more research knowledge of insight into entrepreneurial leadership. Small, medium and micro enterprises fail primarily because their leaders do not have enough or good enough skills (Razak 2011). In addition, traditional ways of leading businesses to improve efficiency are inefficient (Leitch & Volery 2017). This is in line with Osborn and Marion's (2009) view that contexts can be so complicated that no one microscopic view can be deep and comprehensive enough to indicate a single productive understanding of leadership and its efficacy.

Secondly, the system thinking approach and system dynamics modelling were utilised to unpack the entrepreneur's mental models regarding the leadership dynamics and challenges within entrepreneurial contexts. If SMMEs want to reach their goals and be successful in the long run, they need to understand and deal with the dynamic challenges of the enterprise environment. This means that entrepreneurs need to learn how to think about systems to deal with these changing problems and how the framework of complicated processes, like an entrepreneurial system, makes the system more complicated.

Thirdly, the study's results show that SMMEs in Gauteng suffer from various challenges, including limited entrepreneurial leadership expertise and operational practices necessary for developing small businesses. Traditional leadership methods are not very good at solving complex problems in constantly changing situations, like entrepreneurial situations. Thus,

understanding the dynamics in environmental contexts and the limiting factor of traditional leadership approaches are important to manage the change and complexity in entrepreneurial contexts.

According to the results of our study, one of the significant elements that negatively influenced the expansion and development of SMMEs was the business regulatory environment. Complex regulatory procedures remain a significant obstacle to entrepreneurs. Therefore, efforts to lower compliance costs should focus mainly on reducing commercial red tape and increasing the efficiency and clarity of administrative rules. This is supported by several authors, who ascertain that compliance with governmental rules and laws is a more significant encumbrance and hinders SMME growth, and job creation and can impose an excessive and unnecessary burden on SMMEs (Kamara 2017; Shane 2014).

Managerial competence was cited as another significant challenge facing SMMEs. The absence of sustainability initiatives in SMMEs may be related to poor management abilities based on insufficient training, education and business expertise. Studies support that the absence of sustainability initiatives in SMMEs may be related to poor management abilities based on insufficient training, education and business expertise (Arham, Boucher & Muenjohn 2013; Hogeferster 2014; Leboea 2017; Phikiso & Tengeh 2017).

Furthermore, entrepreneurs have challenges getting the right technology and learning the appropriate and practical strategies. Because of financial limitations, SMMEs are not only generally technologically creative, but these entrepreneurs also have inadequate expertise in implementing technology inside their companies. This influences SMME productivity and capacity, represented in the productivity and capacity loop. These results agree with what Giovannini and Moran (2013) found, which is that not having enough money could substantially affect things like training, advancement, servicing charges, data structures and software services.

The study also identified a lack of competitiveness as one of the challenges. Currently, many SMMEs are characterised by using outdated technologies, limited technical skills and a lack of information regarding new technologies. This renders SMMEs unable to compete, affecting their competitiveness. Furthermore, SMMEs face a particular challenge regarding their competitiveness, as the few people they have been engaged in running the business daily.

Lastly, the study results show that many small businesses do not have good internal controls, which can result in unethical behaviour. Additionally, SMMEs have to contend with increasing operational costs because of crime. The Global Entrepreneurship Monitor (GEM) report (2012) revealed that

corruption had become more prevalent, affecting the business's capability to survive and develop, even though all businesses are being affected by the high crime rate (Xavier et al. 2013).

## Conclusion and recommendations

The entrepreneurial context is very dynamic and complex. It emphasises that the low entrepreneurial activity and high failure rate among SMMEs are because of a lack of entrepreneurial leadership capabilities and understanding of the business environment. Therefore, this study advances entrepreneurial leadership as an emerging and important competency to understanding leadership within an entrepreneurial context in emerging economies. Future research should further explore the entrepreneurial leadership challenges facing entrepreneurs found in this research, in other provinces in South Africa and beyond. To further understand the leadership issues faced by SMMEs in entrepreneurial systems, research should be conducted domestically and worldwide, comparing the results to what has been found in this study. From a practical perspective, entrepreneurs that embrace such entrepreneur leadership skills will not only be able to sustain further and expand their business endeavours but will have increased effectiveness in bonding with their team members and/or followers through the unity provided by a standard list of goals and values characterised by the SMME in question.

This study's methodology and philosophy were based on the systems thinking technique previously repressed by the standard reductionist and/or logical positivist paradigm. In South Africa, the study of entrepreneurial leadership and entrepreneurial systems has rarely used the system dynamics method. As a systems-based approach is more suited to coping with the complex dynamics of the actual world and entrepreneurial complexity is best perceived and articulated using dynamic ways, it is suggested as an alternate leadership approach. The use of system dynamics modelling has increased, although it has not often been used to research South Africa's entrepreneurial system. Therefore, it is predicted that the findings will inspire further research in this area.

## Acknowledgements

### Competing interests

The authors declare that they have no financial or personal relationships that may have inappropriately influenced them in writing this article.

### Authors' contributions

This article was drawn from the T.R.M. PhD thesis, and as such, took the lead in the research and the writing of the manuscript and P.D. was co-supervisor and provided conceptual input and guidance in the structuring and writing of the manuscript.

## Funding information

This research received no specific grant from any funding agency in the public, commercial or not-for-profit sectors.

## Data availability

The data that support the findings of this study are available on request from the first author, T.R.M. The data are not publicly available because of their content that could compromise the privacy of research participants.

## Disclaimer

The views and opinions expressed in this article are those of the authors and do not necessarily reflect the official policy or position of any affiliated agency of the authors.

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