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A literature review of the sustainability, the managerial conduct of management and the internal control systems evident in South African small, medium and micro enterprises

Abstract

The purpose of this research study is to theoretically investigate the sustainability, the managerial conduct of management and the internal control systems evident in South African small, medium and micro enterprises (SMMEs). To achieve the aforementioned, a literature review was conducted through analyzing relevant secondary data from journal articles, theses, dissertations, books, and reports. According to popular literature, the overall sustainability of any organization is strongly influenced by its internal control systems. Taking into account the weak sustainability of South African SMMEs, it appears that the soundness of the internal control systems of these business entities is adversely influenced by the managerial conduct of its management. This is particularly the case, since the managerial conduct of management in South Africa is often described as flexible; the managerial conduct of management makes up a substantial part of the control environment which, in turn, is deemed as the foundation of any system of internal control. In quintessence, the literature reviewed shows that the sustainability of South African SMMEs is adversely influenced by a flexible managerial conduct of management which directly (and negatively) impacts on the soundness of their internal control systems; their abilities to attain relevant objectives in the foreseeable future.

Keywords: sustainability, internal control system, managerial conduct, small, medium and micro enterprises, SMMEs, South Africa.
JEL Classification: M10.

Introduction

Despite the fact that a magnitude of business entities were in operation in South Africa prior to the mid-1990s (Visagie, 1997), the concept of small, medium and micro enterprises (SMMEs) was, first, formally recognized through the publication of the *National Small Business Act No. 102 of 1996*[1] (South Africa, 1996; Rogerson, 1997). In this Act, South African SMMEs are defined as separate and distinct business entities, whether incorporated or not, which are managed by at least one owner or more, while conducting their respective business in South Africa, regardless of the industry they operate in. SMMEs are categorized in relation to size (micro, very small, small and medium), based on: 1) the number of full-time employees they employ, 2) their annual turnover, 3) their gross asset value(s), and 4) the industry(ies) in which they operate. These business entities are imposed upon the responsibility to assist the national government in the attainment of two major socio-economic objectives, to boost the national economy through means of: 1) decreasing the national unemployment rate, and 2) alleviating poverty levels.

Over the past two decades, the number of South African SMMEs increased to such an extent that approximately nine out of every ten existing South African business entities can be viewed as an SMME (Mouloungui, 2012). Hence, with emphasis placed on quantities, the inference can be made that South African SMMEs are of particular importance to the national economy. This view is supported by previous research studies (Naidoo & Urban, 2010; Fatoki & Odeyemi, 2010) which point out that South African SMMEs are responsible for adding substantial value to the national economy, primarily through means of providing employment opportunities to between 61% and 80% of the national workforce[2], as well as contributing between between 30% and 57% to the national Gross Domestic Product[3]. It is, thus, of no surprise that these business entities are greatly supported by the national government (DTI, 2013), mostly taking on the form of support agencies such as the *Department of Trade and Industry* which include, inter alia: the *Small Enterprise Development Agency*, the *National Empowerment Fund*, the *National Small Business Advisory Council*, and the *Industrial Development Corporation* (Timm, 2011; DTI, 2015).

Notwithstanding the economic value that South African SMMEs add to the national economy, these business entities have one of the worst sustainability track-records in the world (Wiese, 2014) – referring to the long term continuation of a business entity

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[1] In the early-2000s, the *National Small Business Amendment Act No. 26 of 2003* was published as an updated version of the aforementioned Act, however, no changes or repeals were made in relation to the definition of SMMEs.

[2] In 2014, the size of the South African national workforce was estimated at 35.17 million people (Statistics South Africa, 2014).

[3] The national Gross Domestic Product of South Africa, as in 2014, was estimated at US$ 350.63 billion (IndexMundi, 2014).

through means of achieving its relevant objectives; relative to the fulfillment of economic responsibilities (e.g., being profitable), environmental responsibilities (e.g., minimization of pollution) and/or social responsibilities (e.g., supporting community engagement initiatives) (Villalonga, 2004; Isaksson, 2006).

The objectives of South African SMMEs largely pertain to the attainment of economic responsibilities, specifically in relation to liquidity (Kemp et al., 2015). This is especially the case, since "bank statements" are predominantly used by management of South African SMMEs in order to make business-related decisions (Bruwer & Smit, 2015). For this reason, the term "sustainability", in a South African SMME dispensation, can be refined to "economic sustainability" – the ability of a business entity to achieve a sound economic performance, in order for it to attain a sound economic position which, in turn, will allow it to remain in operation for the foreseeable future (Lebacq et al., 2013).

During the late 1990s, after the implementation of the *National Small Business Act No. 102 of 1996*, reports indicated that between 1.6 million and 3 million SMMEs were actively in operation within the borders of South Africa (Berry et al., 2002, p. 13). Even with support offered by national government, by the early 2000s, between 70% and 80% of South African SMMEs had to close their doors after being in operation for only three years (Cant & Ligthelm, 2002; Van Eeden et al., 2003) – adversely impacting on the national economy (e.g., through job-losses); resulting in the loss of millions of rands[4] in lost economic opportunities (Steyn & Steyn, 2006).

This situation did not change for the better as, by the late 2000s approximately 75% of these business entities had to close their doors after being in operation for a period of only 42 months (Mutezo, 2013). Otherwise put, by the late 2000s, an estimated 10000 South African SMMEs were failing on a monthly basis (Biyase, 2009).

The disconcerting trend continued as time elapsed and, by the early 2010s, approximately 63% of South African SMMEs had to close their doors after being in operation for a period of only two years (Cant & Wiid, 2013), while an estimated 75% of these businesses failed after being in operation for only three years (Moloi, 2013).

Taking into account the support that South African SMMEs receive from national government, it is fair to expect an improvement in these business entities' (economic) sustainability. Therefore, if the support of the South African government had a limited influence on the economic sustainability of South African SMMEs over the span of two decades, the inference can be made that the dismal economic sustainability of South African SMMEs is spurred on by factors that are beyond the control of the support initiatives[5] offered to these business entities by national government. This view is sustained by previous research studies which point out that the (economic) sustainability of South African SMMEs are adversely influenced by a "harsh" South African economic environment (Herrington & Kew, 2013) which, in turn, is influenced by an array of economic factors (Lazzeretti & Petrillo, 2006).

Using the discussion above as basis, it becomes apparent that South African SMMEs need to manage the "harsh" South African economic environment to the best of their abilities to remain sustainable (see Section 3). The sustainability of these business entities can be reasonably assured, for the foreseeable future, through means of using a sound system of internal control (see Section 4). Taking into account that the foundation of any system of internal control is strongly influenced by the managerial conduct of management, prior research studies point to the fact that the managerial conduct of management, in South African SMMEs, is not truly supportive of a sound internal control system in these business entities (see Section 5).

For the remainder of this research article, discussion takes place under the following headings: 1) research design, 2) economic environment of South Africa and the economic factors which influence it, 3) the management of risks through systems of internal control, 4) managerial conduct of management in SMMEs; followed by a conclusion.

1. Research design

For this research study, non-empirical research was conducted. In order to formulate a theory pertaining to the sustainability, managerial conduct of management, and the internal control systems evident in South African SMMEs, a thorough literature review was conducted, falling predominantly within the intepretivistic research paradigm.

Before relevant literature was reviewed, 680 relevant literature sources (see Table 1) were scouted by the authors in order to have a clear understanding SMMEs, the sustainability of SMMEs, internal control systems, and the managerial conduct of management.

[4] The South African rand (ZAR) is the official currency used in South Africa.

[5] Majority of the support initiatives offered by the South African government, to SMMEs, pertain to funding opportunities.

Table 1. The sources which were scouted

Source type	Quantity
Journal articles	326
Books	91
Reports	30
Professional websites	129
Conference papers	22
Theses/dissertations	75
Legislation pieces	7
TOTAL	680

Of these sources, the authors identified only 64 sources which held relevancy to South African SMMEs, South African SMME sustainability, internal control systems, internal control systems in SMMEs, the managerial conduct of management, and the managerial conduct of management in SMMEs. All of these 64 sources were used to develop a theory, which ranges over Section 2, Section 3 and Section 4 below.

2. Economic environment of South Africa and the economic factors which influence it

The economic environment of a country refers to the overall form or state of the respective country's economy (Guilhoto et al., 2002). In order to understand the economic environment of South Africa, key economic indicators need to be interpreted (Pepple, 2004). Although a magnitude of economic indicators can be used to evaluate the economic environment of South Africa (Fite et al., 2002), only six economic indicators were used, relative to the six primary economic indicators that are required in order to measure the fundamental economic well-being/condition of any country (Furdell & Wolman, 2006). These six economic indicators are briefly elaborated on below:

- GDP: it is the total monetary value of all finished goods and/or services that are produced within the borders of a country, for a specific period of time, which is normally equivalent to 12 months (Schmitt-Grohé & Uribe, 2001) expressed in US$.
- GDP per capita: it is regarded as the total monetary value of all final goods and/or services that are produced, in a specific country, over a specific period of time (see definition for GDP) which, in turn, is divided by the population size of the particular country (Akiba et al., 2012). This economic indicator represents the value which the average citizen of a country contributed to the overall GDP of the country under review; showing what the average annual salary of an average citizen of a specific country should have been (Mas-Colell, 2013) also expressed in US$.
- Gini index: it measures how equitably a monetary resource (money) is distributed between all citizens of a particular country. This statistic is measured on a scale from zero (representative of an absolute equal distribution of money) to one (representative of an absolute unequal distribution of money) (Farris, 2010).
- Inflation rate: it is a continuous and substantial measurement of the cost of goods and/or services (in percentage) that are sold and/or rendered in a particular country – an indicator of the cost of living in the relevant country (Mohr & Fourie, 2004).
- Population size: it refers to the (estimated) size of a particular country's human population expressed in number of people.
- Unemployment rate: it serves as an indication of the size (in percentage) of the number of citizens in a country that have been without employment for between one and four weeks, including those citizens who indicate that they want to be employed, but have not searched for any employment opportunities for between one and four weeks (Kingdon & Knight, 2000).

The relevant statistics pertaining to the six economic indicators of the South African economy, for the years 2011 to 2014, are shown in Table 2. To place the South African economy in context, these are compared to similar statistics of India, a country that is similar in nature[6] to South Africa (refer to Table 3).

Table 2. Economic indicators of the South African economy

Economic indicator	2011	2012	2013	2014
GDP (nominal)[7]	US$ 365.21 billion	US$ 403.89 billion	US$ 382.32 billion	US$ 350.63 billion
GDP per capita (nominal)[8]	US$ 5 694.23	US$ 5 820.96	US$ 5 885.22	US$ 5 916.46
Gini index	0.67	0.69	0.63	0.68
Inflation rate	4.88%	5.66%	7.89%	6.21%
Population size	49.9 million	50.5 million	52.9 million	54.0 million
Unemployment rate (narrow)	25.0%	24.9%	25.1%	25.5%

Sources: IndexMundi, 2014; Statistics South Africa, 2014; Trading Economics, 2014.

[6] In 2015, India was regarded as 130th most developed country in the world, while South Africa was 116th.
[7] Statistics for only the GDP (nominal) were used as it measures the value of a country's GDP by taking into account official international exchange rates – a real measurement of economic growth.
[8] Statistics for only the GDP per capita (nominal) were used as it measures the value of the average contribution of one citizen, of a certain country, to the overall GDP (nominal) of a country. This measurement also takes into consideration official international exchange rates – a real measurement of productivity.

Table 3. Economic indicators of the Indian economy

Economic indicator	2011	2012	2013	2014
GDP (nominal)	US$ 1.71 trillion	US$ 1.84 trillion	US$ 1.83 trillion	US$ 1.86 trillion
GDP per capita (nominal)	US$ 1 031.56	US$ 1 086.05	US$ 1 126.9	US$ 1 189.78
Gini index	0.34	0.34	0.34	N/A
Inflation rate	N/A	9.67%	10.07%	7.20%
Population size	1.17 billion	1.21 billion	1.21 billion	1.22 billion
Unemployment rate (narrow)	9.4%	6.3%	5.2%	4.9%

Sources: IndexMundi, 2015; Trading Economics, 2015.

The GDP (nominal) of South Africa experienced a net decrease of 5.10% from 2011 to 2014, a 9.58% increase from 2011 to 2012, a 5.64% decrease from 2012 to 2013, and a 9.04% decrease from 2013 to 2014. In fundamental nature, although there was a ±US$ 14.58 billion decrease in the GDP (nominal), this phenomenon points out two probable scenarios: 1) the productivity of South African citizens decreased between 2011 and 2014, and/or 2) South African unemployment increased between 2011 and 2014. In India, the GDP (nominal) experienced a net increase of 8.70% (±US$ 150 billion), an increase of 7.60% from 2011 to 2012, a decrease of 0.54% from 2012 to 2013, and an increase of 1.64% from 2013 to 2014, giving rise to two probable scenarios: 1) the productivity of Indian citizens increased from 2011 to 2014, and/or 2) national unemployment decreased from 2011 to 2014.

When analyzing the GDP per capita (nominal), South Africa experienced an increase of 3.8% from 2011 to 2014, a 2.2% increase from 2011 to 2012, a 1.1% increase from 2012 to 2013, and a 0.5% increase from 2013 to 2014. Another way to view these statistics is that the average South African citizen contributed ±US$ 222.23 more to the GDP (nominal) on an annual basis at 2014, when compared to 2011. Essentially, since the GDP per capita (nominal) experienced an increase, the scenario identified above can be eliminated – the statistics serve as evidence of increased productivity of the average South African between 2011 and 2014. In India, however, the GDP per capita (nominal) experienced an increase of 5.28% from 2011 to 2012, an increase of 3.76% from 2012 to 2013, and an increase of 5.58% from 2013 to 2014 amounting to a net increase of 14.62% (± US$ 158.22) during this timeframe. These statistics can alternatively be viewed in the sense that, in 2014, the average Indian citizen contributed US$ 99.15 to the GDP (nominal) on a monthly basis justifying the first scenario that the productivity of Indian citizens increased between 2011 and 2014.

Between 2011 and 2014, the South African Gini index ranged between a score of 0.63 and a score of 0.69. This statistic is quite concerning, since it is not remotely close to a score of 0.50 – the median score of equal wealth dissemination. Hence, the assumption can be made that South Africa experienced extraordinary levels of poverty between 2011 and 2014. In India, from 2011 to 2013, the reported Gini index score was 0.34, serving as an indicator that money was fairly equally divided among Indian citizens over these three years. In addition, one can also fairly assume that poverty was not a major issue in India during this timeframe.

The average South African annual inflation rate amounted to 6.16% between 2011 and 2014. Otherwise stated, if an item cost was R10.00 in 2010, its cost would be R10.49 in 2011, R11.08 in 2012, R11.96 in 2013 and R12.70 in 2014. In quintessence, the assumption can be made that the cost of living, in South Africa, was moderately high between 2011 and 2014. For India, the cost of living between 2012 and 2014 showed an average annual increase of 8.98%. In other words, during 2011, an item with a cost of R10.00 in 2010 would cost R10.97 at the end of 2012, R12.07 at the end of 2013, and a purchase price of R12.94 at the end of 2014.

The South African population size increased by ± 4.1 million people – an increase of 600 000 people between 2011 and 2012, an increase of 2.4 million people between 2012 and 2013, and an increase of 1.1 million people between 2013 and 2014. When these statistics are viewed in conjunction with the dismal GDP (nominal) statistics, it provides evidence that the South African unemployment rate increased between 2011 and 2014. From an Indian perspective, the human population grew from 1.17 billion people in 2011 to 1.22 billion people in 2014 (an increase of ±5%), while the unemployment rate decreased from 9.40% in 2011 to 4.90% in 2014. When these statistics are also viewed in conjunction with the GDP (nominal) statistics, is serves as proof that the Indian unemployment rate decreased.

Between 2011 and 2014, the unemployment rate in South Africa appears to have remained constant – close to 25%. Notwithstanding the latter, it is important that these statistics are viewed in conjunction with the statistics pertaining to the population size. In core, by multiplying the population size with the unemployment rate, it can be deduced that as at 2014, approximately 13.77 million South

Africans were unemployed. When this figure is compared to the estimated 12.48 million unemployed South Africans in 2011, the inference can be made that the number of unemployed South Africans increased by more than 1.29 million people over the span of four years (from 2011 to 2014). This view is supported by the increased population size and, essentially, this statistic supports the identified scenario that the South African unemployment rate increased between 2011 and 2014. In India, however, the unemployment rate decreased from 9.40% in 2011 to 4.90% in 2014. In other words, when multiplying the population size with the unemployment rate, the estimated number of unemployed Indian citizens decreased from 109 million people in 2011 to 60 million people in 2014 (a net decrease of ±50 million people), supporting the second scenario pertaining to the decrease in the Indian unemployment rate.

Stemming from the statistics in Table 2 and Table 3 and the interpretations thereof, it appears that the South African economic environment, especially in relation to India, is not very conducive for business entities to operate in; particularly for South African SMMEs. In essence, apart from having to survive with moderately high inflation rates (increasing by an average of 6.16% per annum), a large proportion of South Africans cannot actively take part in economic activities, as 60% of South African citizens are reported to be living below the poverty line (as supported by the discussion pertaining to the Gini index statistics), an amount equivalent to US$ 450.00 per annum (Van Der Ree et al., 2015). Using the statistics surrounding national poverty levels and unemployment in South Africa as basis, it is not surprising that South Africa has been reported to have one of the highest crime rates in the world (Byrne, 2015), adversely affecting the economic environment even more. Therefore, it is fair to deduce that the South African economic environment is "harsh".

According to previous research studies, the "harsh" economic environment of South Africa is greatly influenced by macro-economic factors and micro-economic factors (Brink et al., 2003; Cant & Wiid, 2013); they are briefly explained below:

- Macro-economic factors: those economic factors that have a significant influence on the economic environment of a country (and its citizens and business entities) which cannot be managed and/or controlled to a great extent. Macro-economic factors predominantly stem from global, national, regional and/or local economies, and have a significant influence on countries' economic environments which, in turn, have a direct influence on their citizens, business entities and relevant economic activities. Examples of macro-economic factors include economic uncertainty, extensive red tape, frequent electricity outages, high costs of credit, high inflation rates, high interest rates, and high taxation rates (Kunene, 2008; SAICA, 2015).
- Micro-economic factors: those economic factors that have less significant influence on the economic environment of a country which can be managed and/or controlled to some extent, at least. Micro-economic factors mainly stem from customers, buyers, vendors and business entities alike, in a national dispensation, and impacts more on countries' citizens and business entities as opposed to the its economic environment. Examples of micro-economic factors include bad business infrastructure, high levels of internal/external competition, high overhead costs, incompetent human resources, lack of external funding, poor cash flow management, and substitute products/services (Kunene, 2008; Statistics South Africa, 2014; SAICA, 2015).

Albeit the fact that macro-economic factors have greater impact on the economic environment of a country (Hart, 2014), both macro-economic factors and micro-economic factors have direct influence on the economic environment of South Africa which, in turn, impacts both natural persons and legal persons that are based in South Africa (Cant & Wiid, 2013). Stemming from previous discussion (see Section 1), the inference can be made that South African SMMEs have to manage the "harsh" South African economic environment and applicable economic factors by themselves in order to remain sustainable. One of the best ways in which the aforementioned phenomena can be managed is through means of a sound internal control system (Debreceny et al., 2003).

3. The management of risks through systems of internal control

In general, the term "risk" is strongly associated with the presence of uncertainty (Smit, 2012) especially since it can be viewed as an event which may or may not occur, but once it occurs, it may potentially cause harm/loss or, in some cases, gain/profit (November & Leanza, 2014). Furthermore, risks are inevitable (Sanne, 2008) and are characterized by their probability(ies) of realizing and their probable impact once they realize (Nissanke & Dammag, 2002).

From a business' viewpoint, risks are subjective in nature (Vatsa, 2004), risks that are evident in one business entity will not necessarily be the same as similar risks that are evident in another (Spekman & Davis, 2004). In other words, the potential impact (harm or gain), which risks can have on the attainment of a business entity's objectives

(sustainability), will be unique (Weber et al., 2010). Due to the expansive nature of risks in and around business entities, it is apparent that risks will have imminent influence on the overall attainment of relevant business objectives; particularly in relation to businesses' profitability, solvency, liquidity and efficiency (Luís et al., 2015). In fundamental nature, when risks in and around a business are inadequately and/or ineffectively mitigated[9], it will, in most cases, have an adverse influence on the respective business' overall sustainability (Ridha & Alnaji, 2015) and, subsequently, its entire existence.

Studies and guidance documents (COSO, 1999; Tarantino, 2010; Miller et al., 2013) conclude that the best manner to adequately and effectively mitigate risks in an around business entities, while simultaneously providing reasonable assurance surrounding the attainment of relevant business objectives, is by means of implementing a sound system of internal control. This refers to a formal process implemented by management with the main intent to establish sound internal control – the task of providing reasonable assurance to management, surrounding the attainment of business objectives (sustainability) in the foreseeable future (Manolescu et al., 2011; Lenz & Hahn, 2015). Therefore, by taking the aforementioned into consideration, as well as the fact that risks (in most cases) will have an adverse influence on the attainment of relevant business objectives in the foreseeable future, the analogy can be drawn that an internal control system will aid in the mitigation of risks in and around any business entity. This analogy is supported by previous research studies (Beretta & Bozzolan, 2004; Thevendran & Mawdesley, 2004; Ghosh & Jintanapakanont, 2004) where it was found that the management of risks (risk management[10]) is intertwined in internal control and vice versa.

Using the aforementioned as basis, it is important to take note that a sound system of internal control comprises five inter-related elements, namely: 1) control environment (referring to the overall attitude of management regarding internal control in their business entities), 2) risk assessment (referring to the identification and labelling of risks as "avoidable", "acceptable", "transferrable", or "mitigatable"), 3) control activities (referring to prevention and detection of risks through means of activities pertaining to the segregation of duties, proper authorization, adequate document usage and design, safeguarding of assets, and independent checks), 4) information and communication (referring to the adequate communication of information pertaining to the internal control evident in a business entity to all relevant stakeholders), and 5) monitoring (referring to the continuous checking and maintenance of internal control provided through the system of internal control) (Rezaee et al., 2001; COSO, 2012; Smit, 2012; McNally, 2013).

Although these are all very important elements, the two that are most crucial for any organization, but especially for SMMEs due to their financial constraints, are the elements of "control environment" and "control activities" (Christ et al., 2010). This is particularly the control environment which serves as the foundation of any system of internal control (COSO, 2013; Dmitrieva, 2014), and the rest of the system will be largely dependent on the soundness of the control environment evident in a business entity (Vašiček et al., 2011), influencing the ability of a business to attain its relevant objectives in the foreseeable future (D'Aquila, 1998). In addition, control activities have direct influence over how risks are prevented and detected (Agbejule & Jokipii, 2009).

When reverting back to the control environment (COSO 2013), it consists various aspects, such as ethical values based on integrity, management's commitment towards competence, proper management philosophy(ies), sound management operating style(s), an appropriate hierarchical structure(s), management's commitment towards accountability, management's commitment towards responsibility, and adequate human resource policies and practices. Many of these aspects are directly linked to and/or impacted by management, especially through means of their operating style and their philosophy (collectively referred to as their managerial conduct), influencing the manner in which management executes their respective responsibilities (Agbejule & Jokipii, 2009). It can, thus, be concluded that the managerial conduct will have direct influence on the soundness of the control environment, which will, ultimately, have direct influence on the soundness of implemented systems of internal control that will, in turn, have direct influence on the reasonable assurance provided surrounding the attainment of relevant business objectives. It is, thus, important to understand the managerial conduct in the context of SMMEs' management.

4. Managerial conduct of management in SMMEs

When the term managerial conduct is decomposed and deconstructed accordingly, the term can be understood as how an individual (charged with governance) behaves in his/her personal capacity;

[9] Mitigation is regarded as the limitation of any negative repercussions which may stem from a given event (IoDSA, 2009).

[10] Risk management pertains to a systematic process whereby risks are identified, analyzed and treated accordingly to optimally minimize the potential adverse impact of loss events and optimally maximize the potential positive impact of opportunities with the main intent to help the relevant organization to attain its applicable objectives in the foreseeable future (Nilsen, 2007).

their standard behavior upon executing relevant tasks (Business Dictionary, 2015; Dictionary, 2015). Using the aforementioned as basis, the assumption can be made that the managerial conduct of management holds relevancy to the manner in which members of management behave when discharging their applicable responsibilities. In turn, their behavior is strongly influenced by their personal primary values and their personal ethical standards. This assumption is supported by previous research studies where it is mentioned that the managerial conduct of management serves an indication of how much managers appreciate the influence of ethics on their managerial tasks (Beer, 2010); relates to the manner in which management discharges their applicable responsibilities (Hoque, 2006); is about how management performs their respective responsibilities to satisfy the expectations of relevant organizational stakeholders (Tomasic et al., 2002); and pertains to the behavior of management in relation to circumstances in and/or around an organization (Tsukamoto, 2007).

With the above in mind, it can be assumed that the managerial conduct of management will be unique from one manager to the next. This sentiment is supported by previous research studies (Olmedo-Cifuentes & Martínez-Leon, 2013; Greco et al., 2014) where it was found that the managerial conduct of management is strongly relative to two subjective aspects, namely, the managerial philosophy of management and the operating style of management. According to Kirkeby (2000) and Jamain et al. (2013), managerial philosophy refers to the manner in which management makes business decisions, based on their personal beliefs, which directly influences organizational operations. Personal beliefs are extremely broad in nature and pertain to the following principles (values), inter alia: accountability, adaptability, being cautious, commitment, competitiveness, being courageous, loyalty, fairness, being logical, having compassion, creativity, curiosity, embracing diversity, being enthusiastic, being ethical, generosity, humbleness, innovation, optimism, and transparency. In turn, the operating style of management relates to the method in which management chooses to plan, organize, lead and control in a business entity, greatly impacted by their personal preference. Again, it depends mainly on the personal beliefs of individuals and can be a democratic style (allow employees' input before taking action), autocratic style (take action without employees' input), persuasive style (force employees to agree with management's views before taking action), paternalistic style (management has final say before taking action), or *laissez-faire* (employees should take any course of action needed to act out their relevant responsibilities).

Taking into account the above, while placing focus on the managerial conduct of members of management in SMMEs, it is often described as flexible (McCartan-Quinn & Carson, 2003). This flexibility is believed to primarily stem from the managerial philosophy of management which, in most cases, revolves around satisfying the needs of customers, while simultaneously outperforming competition businesses (Bhagchi et al., 2012; Copley, 2014). In addition, due to the nature of these business entities, research studies suggest that members of management of SMMEs do not have a fixed managerial operating style, but rather a customized managerial operating style (Nkulu, 2012; Mellor, 2014). Hence, the inference can be made that, since the managerial conduct of members of management of SMMEs is described as flexible, the control environment of these business entities will also (most probably) be flexible.

Although the aforementioned inference pertains to SMMEs in a general sense, it is, however, highly plausible that management of South African SMMEs has a flexible managerial conduct; that South African SMMEs have flexible control environments. This view is particularly supported by a previous research study (Bruwer & Van Den Berg, 2015) where it was found that South African SMMEs did not have sound control environments, and made use of customized internal control systems.

Conclusion

Stemming from the thorough literature review conducted, it appears that, although South African SMMEs are major contributors to the national economy, these business entities are not attaining their legally imposed responsibility of boosting the national economy through means of decreasing unemployment rates and diminishing national poverty. This is particularly the case, since approximately 75% of South African SMMEs, on average, fail after being in operation for three years. Even through these business entities are well supported by national government, popular literature suggests that South African SMMEs have to fend for themselves in order to remain sustainable, especially in a "harsh" economic environment.

One of the best ways in which South African SMMEs can fortify their sustainability (and existence) is through means of using sound internal control systems, however, based on the content analysis of secondary data, these business entities make use of ineffective and/or inadequate internal control systems. Furthermore, the managerial conduct of management in these business entities is believed to have direct (negative) influence on the soundness of their implemented internal control systems. For this reason, the following assumption is made by the authors (theory):

The managerial conduct of management of South African SMMEs is believed to have theoretically negative influence on the soundness of the control environment in these business entities. Since the managerial conduct of management in these business entities is regarded as flexible, it is highly probable that the control environments of these business entities are also flexible. Ultimately, the implemented internal control systems in South African SMMEs are uncomprehensive in their coverage to provide reasonable assurance surrounding the attainment of relevant organizational objectives in the foreseeable future.

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