“The effect of strategic planning on operational efficiency in South African SMEs”

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THE EFFECT OF STRATEGIC PLANNING ON OPERATIONAL EFFICIENCY IN SOUTH AFRICAN SMEs

Abstract

The small and medium enterprises (SMEs) industry is crucial for South Africa's economic growth as it contributes to GDP, boosts employment, and fosters innovation, though SMEs face numerous limitations that hinder their ability to operate and expand. The objective of this paper was to explore the effect of strategic planning on operational efficiency in South African SMEs. Based on data from 282 SMEs across various sectors in South Africa, the regression analysis shows a strong positive correlation between operational efficiency and strategic planning ($r = 0.296$, $p < 0.0005$). The coefficient of determination (R^2) of 0.087 suggests that strategic planning accounts for approximately 8.7% of the variance in operational efficiency. While this figure may appear modest, it is statistically significant ($F = 26.806$, $p < 0.0005$), indicating that strategic planning plays a meaningful role in enhancing operational efficiency. The paper highlights important strategic initiatives that enhance productivity and competitiveness, such as designing, implementing, and monitoring business strategic plans, as well as resource availability. The socioeconomic environment of the SME industry is given special consideration, emphasizing how customized approaches can get beyond structural obstacles and promote sustainable development.

Keywords business, strategy, planning, performance, sustainability

JEL Classification L26, M10, L23, L25

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INTRODUCTION

Small and medium enterprises (SMEs) play a crucial role in the South African economy, serving as catalysts for economic growth, employment generation, and innovation (Govender & Chetty, 2024). Despite their economic importance, SMEs in South Africa experience a disproportionately high failure rate, which threatens their sustainability and, by extension, the broader economic outlook (Sharma & Rautela, 2022; Otto, 2022; Dlamini, 2023). Msomi (2023) emphasizes that this alarming failure rate raises concerns about the sector's ability to significantly contribute to employment creation, economic expansion, and poverty alleviation. Strategic planning offers SMEs a structured approach to identify long-term goals, allocate resources effectively, and enhance overall performance (Molete et al., 2025). Given the unique challenges faced by these enterprises, including limited resources, market volatility, and a fast-changing business landscape, effective strategic planning is essential for their sustainability and growth.

SMEs with comprehensive strategic plans not only achieve better operational outcomes but also gain a competitive edge by being more responsive to market dynamics. Despite this recognition, very few studies have examined strategic planning among SMEs in developing countries such as South Africa (Majama & Magang, 2017). Many SMEs struggle to implement robust strategic planning frameworks,

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leading to inefficiencies in operations, poor financial management, and an inability to adapt to changing market conditions (AlQershi, 2021; Dwikat et al., 2022; Ahmad et al., 2024). Without well-structured strategic plans, SMEs often experience difficulties in scaling their operations, managing cash flow, and navigating regulatory complexities, all of which increase the likelihood of business failure.

1. LITERATURE REVIEW

According to Zhou (2021), SMEs constitute approximately 91% of formal business entities in South Africa, contributing between 51% and 57% to the national GDP and accounting for 60% of total employment. The true potential for organic economic growth lies within these enterprises and the ambitions of their founders, rather than exclusively in large corporations. Consequently, fostering a conducive environment for SME development is imperative to sustaining long-term economic progress and social stability. The rising unemployment rate in South Africa serves as a critical indicator of the widespread failure of SMEs, underscoring the sector's vulnerability and its far-reaching implications for economic stability (Ramsuraj, 2023). According to Agholor et al. (2024), approximately 70% of newly established SMEs in South Africa do not survive beyond their first two years of operation. This alarming statistic highlights the significant challenges entrepreneurs face in sustaining their businesses in a highly competitive and often volatile economic environment.

One of the key factors contributing to the high failure rate of SMEs is the inadequacy of strategic planning, which directly affects their operational efficiency and long-term sustainability (Lo & Sugiarto, 2021; Dwikat et al., 2022; Bakare et al., 2024). Strategic planning is essential for defining business objectives, optimizing resource allocation, and ensuring resilience in the face of market uncertainties (Edwards, 2021). Effective planning aids in optimizing resource allocation, improving decision-making processes, and fostering a culture of continuous improvement among employees. By setting clear objectives and aligning organizational efforts, strategic planning helps SMEs navigate the complexities of the business environment, ultimately driving profitability and success. However, many SMEs encounter barriers to effective strategic planning, such as resource constraints, lack of expertise, and time limitations. These challenges can lead to a reactive rather than proactive approach to business management, undermining long-term viability. Moreover, the absence of effective strategic planning limits SMEs' ability to capitalize on growth opportunities and integrate innovative business models that could enhance their competitiveness. Inadequate market research, lack of long-term vision, and poor decision-making frameworks further exacerbate the operational challenges faced by these enterprises (Ojha et al., 2023; Mousa et al., 2024). Given that SMEs play a crucial role in job creation and economic development, their failure not only leads to business closures but also contributes to rising unemployment, reduced household incomes, and economic stagnation.

Prior studies highlight a strong link between systematic planning and organizational performance. For instance, Al-Shukri (2024) shows that successful firms adopt structured planning processes, applying techniques such as rational analysis, empiricism, philosophical synthesis, and organizational development. Among these, the organizational development approach emphasizes a positive work environment and adaptability, while the resource-based view stresses competitive advantage through unique assets and capabilities, though critics argue resources alone do not guarantee sustained success. Despite this recognition, very few studies have examined strategic planning among SMEs in developing countries such as South Africa (Majama & Magang, 2017). Literature is more concerned with survival financially rather than strategic orientation. Accordingly, SMEs still experience high failure rates and low performance despite their exposure to external stimulation (Ahmad et al., 2024). Other evidence suggests that SMEs do not pay sufficient attention to strategic planning or handle it superficially (Cornelisse & van Klink, 2024). Managers are usually criticized for lacking long-term vision, focusing on short-term activities, and making largely reactive decisions (Sathyanand et al., 2025).

Moreover, even when SMEs claim strategic planning, their reliance is higher on intuition rather than on formalized processes (Maharaj & Msomi, 2024). Planning is informal, occurring infrequently and based on limited and/or unreliable information (Chinis et al., 2024). The use of planning tools is of the same limited kind and is aimed more at operational business planning than at strategic planning (Manyaga et al., 2024). Other results are that goal setting is low strength, using alternatives is never attempted, and planning is non-rational and unsystematic. While strategic thinking may take place at the level of SMEs, this is never operationalized and structured (Rampaul, 2025).

In the past decades, the relationship between strategic planning and SMME performance has been widely studied (Chavunduka et al., 2015; Dubilihla & Sandada, 2014; Monday et al., 2015; Pangarkar, 2015). Companies that conduct proper strategic planning tend to outperform those that do not (Monday et al., 2015). For instance, Wijetunge and Pushpakumari (2014) has shown that companies that use strategic planning achieve better performance, while Dubilihla and Sandada (2014) have verified a positive connection between strategic planning and the success of small business enterprises in South Africa. Likewise, Arasa and K'Obonyo (2012) stress that performance is reliant not only on planning but additionally on proper execution of strategies, control, and evaluating strategies. Chavunduka et al. (2015) support this argument, as improvements in performance drivers like net income and ROI were observed. Moreover, Monday et al. (2015) recorded that sound organizational performance is related to strong strategy execution.

Mixed findings are presented within the research examining the connection between aspects of the strategic planning process and organizational performance (Babatunde & Sanusi, 2020). Efendioglu and Karabulut (2010) revealed that in Turkey, strategic planning has a significant contribution if articulated by a clear mission and strong top management involvement. However, Gibson et al. (2001) found a negative connection between aspects of strategic planning and organizational performance, while French et al. (2004) found no significant connection within small service organizations. Similar findings of weak or no connection have been found within other examples, e.g., SMMEs (Ali, 2018) and service sector businesses such as hospitals in Lebanon (Saleh et al., 2013).

This study used the resource-based view (RBV) (Barney, 1991) as a supplementing theoretical perspective. The RBV synthesizes economic and strategic management perspectives to account for firms that generate competitive advantage based on the distinctiveness of their resources and capabilities (Grant & Jordan, 2015; Andersen & Nielsen, 2009). The key assumption is that organizations vary in what strategic assets they control and possess, and these differences are used to account for performance variations (Grant & Jordan, 2015). Resources defined as assets devoted relatively permanently to the firm are the foundation of RBV analysis. Common sources of advantage are financial and natural resources, technology, and economies of scale, and these can all contribute toward the creation of value (Gruber et al., 2010). Capabilities are more about the ability of the firm to integrate and apply resources with developed processes toward strategic goals (Grant, 2014). These capabilities tend to be tacit and path-dependent and are developed gradually based on the complex interactions of resources. By connecting resources and capabilities, the RBV contributes to the work of Porter as indicated by Rivard et al. (2006) and serves as a foundation from which it is possible to understand how firms may generate and maintain competitive advantage. Here, human resources are seen as central when it comes to defining effective strategies, and dynamic capabilities are used to manage resources properly throughout the strategic planning process (Gruber et al., 2010). Following Mahoney and Pandian (1992), the RBV draws attention to the relationship between strategic planning processes and firm performance and is, therefore, a useful foundation for our study.

Empirical evidence suggests that SMEs that engage in strategic planning experience improved productivity, cost efficiency, and better decision-making processes. Enterprises with structured business plans are more likely to secure funding, optimize their supply chains, and enhance customer satisfaction through streamlined operations (AlQershi, 2021; Tokhirov &

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Abdurakhimjanov, 2021; Rozak et al., 2021). Tshienda (2021) indicated that SMEs employing strategic planning practices experience higher business performance. While many SMEs attempt strategic planning, it is often unstructured and intuitive rather than formalized and not consistently integrated into daily operations. Nonetheless, those that do implement strategic planning effectively tend to achieve better operational outcomes.

However, despite the apparent benefits, many SMEs in South Africa face challenges in implementing strategic planning due to limited managerial expertise, resource constraints, and a lack of access to business development services. Furthermore, many small business owners prioritize short-term survival over long-term strategic goals, which undermines their ability to achieve sustained growth and competitiveness. Therefore, in an economy like South Africa, this study is warranted, necessary, and demanded.

The aim of this study was to investigate the effect of strategic planning on operational efficiency in South African SMEs.

2. METHODOLOGY

The paper utilized a quantitative research design based on the positivist paradigm in studying the effects of COVID-19 on South African SMEs. It was a paradigm of choice because of the study's objective to determine measurable interrelations between strategic planning and operating efficiency, rather than personal experiences. A cross-sectional study design was utilized and was best suited given the realities of the COVID-19 pandemic, since it captured SMEs' short-term reaction and adjustment of business during a time of the highest uncertainty. To comply with social distancing measures and allow for broad participation from heterogeneous geographic locations, the survey was conducted using a standardized online questionnaire. The focus group consisted of SMEs who were members of credible business support organizations in South Africa, for instance, the Centre for Social Entrepreneurship (CSE), Productivity SA, the Johannesburg Chamber of Commerce and Industry (JCCI), and the Durban Chamber of Commerce and Industry (DCCI). These organizations have been particularly targeted because they maintain extensive networks of SMEs across various industries, such as construction, agriculture, manufacturing, trade, accommodation, and retailing. Hosting the respondents through these organizations ensured that the study gathered opinions from a wide segment of SMEs, and hence achieved the highest degree of generalizability of findings.

A purposive sampling design was used to sample only the responders and SME proprietors/senior managers who had access to enough information and decision-making power to perceive the operating and strategic effect of the pandemic at the enterprise level (Uakarn et al., 2021). It guaranteed that only relevant and appropriate data were gathered. It was calculated from the Krejcie and Morgan formula, which is suggested broadly in survey studies for the creation of relevant estimates of representative sample sizes (Msomi, 2024). Thus, 348 SMEs had to be sampled. Of these, 282 valid responses were obtained, including a respectable 81% participation rate, which is reasonable for internet surveys and an indicator of respondents' interest in the survey topic. To determine measurement instrument reliability, internal consistency was measured with Cronbach's alpha coefficient, a numerical standard measure. Results showed constructs were reliably measured, and so the reliability of the survey instrument was warranted. Data were addressed in two phases: descriptive statistics (means, frequencies, and standard deviations) followed by inferential statistics. Specifically, regression analysis was employed to determine the hypothesized impact of strategic planning on SMEs' operating efficiency. Through the application of these descriptive and inferential methodologies, a general and in-depth exploration of respective associations was achieved. Finally, we strictly adhered to ethical research guidelines. Ethical clearance had been obtained from the appropriate institutional review board before data collection. All respondents had been informed of the purpose and assured of the confidentiality and anonymity of their answers. Participation was completely voluntary, and informed consent was offered in an electronic procedure before the respondents went to fill out the questionnaire.

3. RESULTS AND DISCUSSION

To understand the responses, it is necessary to look at the average values and the level of variation (standard deviations) for each statement. Table 1 displays the factor loadings, mean scores, and standard deviations for the responses.

The descriptive results provide an initial insight into the performance of SMEs across the two focal constructs: operational efficiency and strategic planning. It is found that SMEs in the sample had attained satisfactory levels of operating efficiency, and the mean levels of these had varied from 3.852 to 4.113. The highest level of the indicator "Access to funding options positively influenced efficiency" (M = 4.113, SD = 0.911). It is found that the availability of financing is core to SMEs, and such is usually the most critical indicator of efficiency in organizations operating under resource scarcity. Likewise, "SME effectively utilized cost-cutting measures" (M = 4.011, SD = 0.953) was the highest-ranked, and this is an indicator of responsiveness and dependence that are core to SMEs.

The lowest mean was still recorded for "SME consistently achieves its revenue targets" (M = 3.852, SD = 0.913), and this is a sign of a persistent weakness in the domain of SMEs. This result might originate from the fragile nature of SMEs' operations, in the sense that interruptions internally, like workforce interruption, or externally, like supply chain interruption, far too frequently disproportionately impact in comparison to larger organizations. Thus, SMEs, even though they are agile, far too often lack redundancy and integrated continuity plans.

The descriptive statistics indicate that SMEs participate at high levels in strategic planning efforts, with mean responses ranging from 4.174 to 4.382. "Implementing a strategic plan" received the highest mean (M = 4.382, SD = 0.841), which suggests that SMEs prioritize not only strategy formulation but also implementation. Similarly, "Plans to accomplish objectives" (M = 4.356, SD = 0.892) and "monitoring strategic plan progress" (M = 4.297, SD = 0.867) yielded high responses, which reflect SMEs' embracement of objective alignment and monitoring of performance. "Creating business objectives" (M = 4.312, SD = 0.885) received the lowest response, which is reflective of SMEs' operating with poorly outlined or unspoken objectives. Having defined these objectives, however, activities are in progress to implement and monitor them.

The factor loading analysis further validates the measurement of the constructs under investigation. For operational efficiency, all indicators demonstrated high factor loadings ranging from 0.788 to 0.876, exceeding the recommended 0.70 threshold, thereby confirming their reliability as indicators of the construct. The most prominent loading was associated with "Access to funding options positively influenced efficiency" (0.876), underscoring that the availability of financing is the cornerstone of efficiency in SME operations. Similarly, "SME effectively utilized cost-cutting measures" (0.861) was strongly represented, reinforcing the critical role of cost reduction measures for efficiency. The relatively lower loading for "SME consistently achieves its revenue targets" (0.788), while still acceptable, signals that this dimension contributes less strongly to the latent construct compared to others. This finding reflects

Table 1. Strategic planning on SME operational efficiency

Construct	Indicators	Loadings	Mean	SD
SME operational efficiency	SME effectively utilized cost-cutting measures	0.861	4.011	0.953
	Adoption of innovation and technology strategies	0.844	3.970	0.976
	Access to funding options positively influenced efficiency	0.876	4.113	0.911
	SME consistently achieves its revenue targets	0.788	3.852	0.913
	SME efficiently managed its cash flow	0.822	4.035	0.845
Strategic planning	Creating business objectives	0.762	4.312	0.885
	Designing a strategic plan	0.861	4.174	0.913
	Implementing a strategic plan	0.918	4.382	0.841
	Monitoring strategic plan progress	0.844	4.297	0.867
	Plans to accomplish objectives	0.827	4.356	0.892
	Resources for a strategic plan	0.835	4.268	0.924

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Table 2. Regression analysis on the effect of strategic planning on the operational efficiency of South African SMEs

Variables in the equation	B	Beta	t	p-value	R^2	F	Df	p-value
Constant	20.498		12.209	<.0005	.087	26.806	1; 280	<.0005
Strategic planning	.412	.296	5.177	<.0005				

Note: DV – Operational efficiency.

the reality that SMEs' plans to achieve the targeted revenues are often underdeveloped, making them less reliable as predictors of overall efficiency. For strategic planning, factor loadings ranged from 0.762 to 0.918, again comfortably exceeding the reliability threshold. The strongest loading was recorded for "Implementing a strategic plan" (0.918), highlighting that execution is perceived as the most decisive component of planning. "Designing a strategic plan" (0.861) and "Monitoring strategic plan progress" (0.844) also loaded highly, emphasizing the centrality of systematic design and follow-up mechanisms. By contrast, "Creating business objectives" (0.762), although significant, emerged as comparatively less influential, possibly due to SMEs' tendency to develop objectives that are broad, adaptive, and less formalized.

The regression analysis presented in Table 2 provides empirical evidence supporting the relationship between strategic planning and operational efficiency among SMEs in South Africa. About 8.7% of the variation in operational efficiency may be explained by strategic planning, according to the coefficient of determination (R2) of 0.087. Despite its small appearance, this number is statistically significant ($F = 26.806$, $p < 0.0005$), suggesting that strategic planning does contribute significantly to improving operational efficiency.

The standardized beta coefficient ($\beta = 0.296$) further supports this assertion, suggesting that an increase in strategic planning efforts corresponds with an improvement in operational efficiency. Furthermore, the strength of the predictive relationship (as indicated by the regression coefficient and significance level) suggests that businesses that integrate strategic planning into their core management practices are more likely to streamline their operations, minimize waste, and enhance productivity. These outcomes are particularly important for SMEs, which often operate with limited resources and face dynamic market challenges.

The *t*-value of 5.177 reinforces the robustness of this relationship, confirming that strategic planning significantly influences operational performance. The positive and statistically significant B value ($B = 0.412$, $p < 0.0005$) implies that for every unit increase in strategic planning, operational efficiency improves by 0.412 units. These findings align with prior studies that have consistently identified strategic planning as a crucial driver of business success (Dubihlela & Sandada, 2014; Tshienda, 2021). However, the relatively low R^2 value suggests that while strategic planning contributes to operational efficiency, other factors also play a significant role. By setting clear objectives, aligning resources with business goals, and continuously evaluating performance, SMEs can enhance their efficiency and responsiveness to market changes. Furthermore, strategic planning facilitates better financial management, cost control, and customer service improvements, all of which contribute to sustainable business operations. The results underscore the necessity for SMEs to adopt structured and comprehensive strategic planning practices to maximize their efficiency. Given the highly competitive and dynamic business environment in South Africa, SMEs must integrate strategic planning into their core business operations rather than treating it as an ancillary activity.

Table 3. Pearson correlation

Construct A	Construct B	Pearson's correlation (r)	p -value
Strategic planning	Operational efficiency	.296	<.0005

The correlation coefficient in Table 3 revealed that there is a significant relationship between strategic planning and operational efficiency ($r = 0.296$, $N = 282$, $p < 0.0005$). The positive relationship is an indication of a direct association between strategic planning and operational efficiency. The results of the regression analysis, which indicate a significant positive relationship between strate-

gic planning and operational efficiency ($r = 0.296$, $p < 0.0005$), are well supported by a vast body of prior research across various countries and industries. Numerous scholars have emphasized the role of strategic planning in enhancing business efficiency by enabling firms to anticipate market changes, allocate resources effectively, and align internal capabilities with external opportunities. For instance, Addae-Korankye and Aryee (2021) in Ghana, along with Dwikat et al. (2022) in Palestine, argue that strategic planning fosters structured decision-making and reduces uncertainty, leading to improved operational efficiency. Similarly, Lo and Sugiarto (2021) in Indonesia highlight that strategic planning enhances adaptability in dynamic business environments. A meta-analysis conducted by Miller and Cardinal (2017) in the United States also concluded that strategic planning significantly influences firm performance, particularly for SMEs where resource constraints necessitate careful long-term planning. Furthermore, Molete et al. (2025) in Zimbabwe found that strategic planning contributes to improved operational efficiency by minimizing redundancies and streamlining workflow processes.

Several studies focusing specifically on SMEs have also confirmed the positive impact of strategic planning. Tshienda (2021) in the Cape Metropole reported that SMEs with structured strategic planning frameworks achieve greater operational efficiency than those that rely on ad-hoc decision-making. Similarly, in developed countries, Jayawarna and Dissanayake (2019) found that SMEs engaging in strategic planning exhibit higher performance outcomes, particularly in efficiency and profitability. Additionally, Alosani et al. (2020) in Dubai provided empirical evidence from emerging economies, demonstrating that SMEs with formalized strategic planning exhibit greater agility, financial stability, and resource optimization.

Industry-specific studies further corroborate these findings. In the manufacturing sector, Mousa et al. (2024) in Iraq found that strategic planning contributes to lower production costs and improved operational processes, ultimately leading to greater efficiency. In the service sector, firms with well-defined strategic planning procedures achieve higher levels of efficiency due to better workflow management and resource deployment.

Despite the strong evidence supporting the positive impact of strategic planning, some studies present a counterargument, suggesting that the relationship may not be universally applicable. Agholor et al. (2024) contend that excessive formalization of strategic planning can stifle creativity and adaptability, potentially leading to rigidity in decision-making rather than efficiency gains. Similarly, van Ruler (2021) found in developing countries that, in highly volatile markets, traditional strategic planning may be less effective, as businesses require more flexible, emergent strategies rather than fixed, long-term plans. Moreover, Agyapong et al. (2021) in an emerging African economy suggest that SMEs, particularly startups, might benefit more from intuitive decision-making and rapid experimentation rather than rigid strategic planning, which could slow down agility and responsiveness.

Although this study offers valuable results in the South African context, it is not free from limitations. First, there is limited generalizability as the data were collected from the Centre for Social Entrepreneurship (CSE), Productivity SA, the Johannesburg Chamber of Commerce and Industry (JCCI), and the Durban Chamber of Commerce and Industry (DCCI). Second, future studies should conduct similar analyses to improve scale robustness. There is a limited scope, so further studies should cover all SMEs in South Africa. Finally, there is also a reliance on subjective views of SME owners/managers. These limitations open prospects for future research.

CONCLUSION

The objective of the study was to explore the effect of strategic planning on the operational efficiency of South African SMEs. The findings revealed a positive and significant relationship between strategic planning and operational efficiency. This emphasizes the crucial role of strategic planning in enhancing business efficiency by enabling firms to anticipate market changes, allocate resources effectively,

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and align internal capabilities with external opportunities. Improved business efficiency is the result of more strategic planning strategies. SMEs can enhance their competitiveness and performance by implementing strategic planning. SME owners and managers can use the findings as a guide to successfully implement strategic planning. SMEs can also manage competitive and dynamic business environments with the aid of strategic planning.

These findings are valuable because they can aid in the improvement of the operational efficiency of SMEs and ultimately lead to business sustainability, economic growth, and increased employment in South Africa. An effective intervention strategy for SMEs requires implementation of strategic planning initiatives supported by adequate resources, infrastructure, and government support. It can also guide government departments in designing policies and initiatives to support SME development and success in the country. The government should offer workshops, short courses, or customizable university/college courses that cover the fundamentals of strategic planning. Through educational initiatives, policymakers and scholars should help SME owners and managers create strategic plans. SMEs in South Africa should outline their strategic planning in order to comply with bank loan and government grant regulations.

AUTHOR CONTRIBUTIONS

Conceptualization: Avika Maharaj, Thabiso Sthembiso Msomi.
Data curation: Avika Maharaj.
Formal analysis: Avika Maharaj.
Investigation: Avika Maharaj.
Methodology: Avika Maharaj.
Project administration: Avika Maharaj.
Resources: Avika Maharaj.
Software: Avika Maharaj.
Supervision: Thabiso Sthembiso Msomi.
Validation: Avika Maharaj, Thabiso Sthembiso Msomi.
Visualization: Avika Maharaj, Thabiso Sthembiso Msomi.
Writing – original draft: Avika Maharaj, Thabiso Sthembiso Msomi.
Writing – review & editing: Thabiso Sthembiso Msomi.

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