The relationship between entrepreneurial skills and profitability in poorly resourced retail enterprises
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ABSTRACT
A survey of retail business enterprises operating in the footwear and textile sector of Braamfontein, a suburb of Johannesburg, was carried out to estimate the level of entrepreneurial skills of owners and operators of retail business enterprises. The suburb of Braamfontein is home to vibrant local and international footwear and textile business enterprises. The purpose of research was to measure the degree of competence in basic entrepreneurial skills among retail enterprises in the footwear and textile sectors of the Braamfontein suburb of Johannesburg. A composite index which is tailored to the operational needs of emerging enterprises in Gauteng Province (Worku, 2021A, 2021B) was used for quantifying the levels of competence and skills in entrepreneurship. The survey found that the level of competence in the field of entrepreneurship varied depending on the ability of businesses to generate profit, skills in drawing up business plans, and the availability of fixed assets, savings and other forms of collateral for securing business loans.

Keywords: Entrepreneurial skills, Emerging enterprises, Confirmatory factor analysis.

1 Introduction
Retail businesses of all types operate out of the Braamfontein suburb of Johannesburg. Braamfontein offers a wide variety of retail products, goods and services in the footwear and textile sectors to the general population. The products sold by retailers in Braamfontein include international products, goods and services that are sold at affordable cost to local and continental consumers from the rest of Africa. Braamfontein is also a popular choice among retail business operators who work out of various African countries. More than half of all jobs in Braamfontein are created by retail businesses. Retail businesses contribute 34% to the South African Gross Domestic Product (Gauteng Provincial Government, 2022; Statistics South Africa, 2022). This confirms that retail businesses deserve to be given a sizeable level of support in terms of macroeconomic policy, training opportunities and business loans. The need for such support and assistance has come to light especially since the first quarter of 2020 following the Covid-19 outbreak and spread.

The basic operational needs of emerging retail business enterprises are well known to all relevant stakeholders including the Gauteng Provincial Government, the Department of Trade, Industry and Competition, and the Small Enterprise Development Agency. However, researchers have indicated that emerging retail enterprises are not afforded adequate support (Gregory&Rogerson, 2019; Salim, El Barachi, Onyia&Mathew, 2020; Sekhwela&Samson, 2020). The essential elements of assistance to emerging retailers are hands-on training, coaching and mentoring, close supervision and business loan applications. Annual reports published by the Gauteng Provincial Government (2022), the Small Enterprise Development Agency (2022) and the Department of Trade, Industry and Competition (2022) suggest that emerging retail operators and owners do not attend and benefit from training programmes that are offered to poorly skilled and poorly resourced retailers.

Research work carried out by Nguyen, Tsai, Nguyen, Vu and Dao (2020) indicates that inability to write business plans that are acceptable to commercial banks and microfinance institutions hinders the capacity of emerging retail business operators to consolidate their retail business operations and ensure profitability. Lack of writing skills in the production of business plans, poor presentation skills, poor networking skills and inability to market products, goods and services by using appropriate methods undermines viability in emerging retail businesses in all townships of Gauteng Province. Research work carried out by Marivate (2014) has confirmed that failure to keep business records properly on a daily basis, failure to take inventory, failure in producing financial statements, and inability to follow proper auditing and accounting processes are main obstacles that undermine the
capacity of emerging retailers to remain viable. A population based survey carried out by Osifuye, Worku and Muchie (2020) has found that emerging retailers fail to nurture and maintain long-term working relationships with loan providers working in commercial banks and business loan providers. Generally, the ability to keep records of financial transactions, inventories and stocks is inadequate among emerging retail enterprises. Not enough is known about the level of entrepreneurial skills of retail business operators working in the footwear and textile sector of Braamfontein. Very few studies have measured the level of entrepreneurial skills in the footwear and textile sector of Braamfontein. In an attempt to fill the gap in the literature, the study has gathered empirical data from retail operators working in the footwear and textile sector of Braamfontein.

2 Literature review

Ranchhod and Daniels (2021) have estimated indicators of poverty and unemployment in South Africa and have found that 35% of South Africans have no jobs. Their research indicates that a 10% annual rate of economic growth or more is required to create enough jobs for people who seek jobs in the local markets. Commonly acknowledged causes of inability to secure jobs among graduates leaving schools, colleges and universities are related to specific technical, vocational, artisan and managerial skills that are in demand by potential employers. The research work carried out by Krugel (2021) indicates that the set of practical skills that are in demand in the job market are quite hard to find among fresh graduates of institutions of higher learning and training. Researchers who have assessed the availability and suitability of skills among job seekers have found that there is a need for overhauling the academic syllabi and curriculum content that is in use at present (Herrington, 2018; Marivate, 2014; Fatoki, 2018). Research work carried out by the authors indicates that examples should be taken from institutions of higher learning and training in Israel, Germany, Japan, South Korea, the United Kingdom, Canada, the USA, Australia and the Netherlands in areas that require vocational training with practical applications in industry. In the above countries, classroom-based training is directly linked with practical lessons that are given in industry and business. An example taken from Israel shows that massive resources are required to link theoretical lessons that are given in classrooms with industry experience (Eppler-Hattab, 2022: 948-966).

The research work carried out by Alt and Raichel (2022: 370-394) suggests that there is a dire need to overhaul the current teaching and learning system in South African schools, colleges and universities. The main reason for doing this is the urgent need to produce competent graduates who are capable of performing satisfactorily in industry, business and commerce. A key area of failure pointed out by Herrington (2018) is entrepreneurship in which lack of entrepreneurial skills results in bankruptcy in more than half of all start-up enterprises in the first three years of operation.

Surveys carried out by Worku (2019), Shava (2022) and Hashmi, Khushik, Gilal and Yongliang (2021) have indicated that it is necessary to start overhauling the educational system from the primary school level to achieve exit level learning outcomes in practical aspects of vocational and technical education. Employers are not willing to recruit fresh graduates who require extensive practical training, mentoring and coaching at the workplace. With a view to reduce operational cost, they employ applicants who already possess all required practical skills. It has not been possible to improve the level of competence of fresh graduates in the fields of engineering and science by disregarding practical aspects of training.

Hashmi, Khushik, Gilal and Yongliang (2021) have stated that graduates of local colleges and universities possess relatively low levels of practical expertise in comparison with graduates coming from countries such as China, Brazil, Russia and India. The main causes are attributed to inappropriate teaching curriculum, inability to teach practical elements of syllabi at industry, reliance on unhelpful and traditional teaching methods, lack of workplace discipline, and inadequate commitment to learners from teachers’ unions.

In the fields of business and entrepreneurship, there is a significant relationship between practical entrepreneurial skills and continued profitability and survival. The survey carried out by Worku (2018) shows that learners need to be exposed to entrepreneurial skills at an early stage so that they grow up with the skills. Such skills can be actively developed and promoted by parents, friends, relatives and community-based institutions that cater for youth development, job creation and poverty alleviation. The work done by Masoabi and Alexander (2021) shows that it is necessary to reconcile the set of skills needed in the job market with the teaching syllabi and curricula used in South African institutions of learning from an early stage of development.

Entrepreneurial skills that are needed in the footwear and textile sector include competence in exploring market gaps and carrying out business intelligence processes and applications for assessing prevailing market conditions and
customer preferences. A mismatch between the set of skills possessed by young graduates and those required for entrepreneurial success is a major cause of bankruptcy among emerging retail businesses in Braamfontein and the rest of South Africa. Of particular importance is the need for skills in writing business plans, making oral presentations, identifying potential customers and partners, and attending training sessions that are helpful for improving bookkeeping, auditing and accounting skills (Herrington, 2018; Rogerson, 2020). The other set of skills that are in demand are networking and gathering market related information about products, marketing strategies and the determination of selling prices and expected profit margins (Nithya & Kiruthika, 2021). Emerging retail operators must bear in mind that consumers are protected by well-defined rights and legislation. Researchers have shown the need for adhering to business ethics guidelines while conducting retail business operations (Maziriri & Chivandi, 2020; Worku, 2018).

Surveys carried out by Worku (2021A, 2021B) in Gauteng Province are based on data gathered from emerging entrepreneurs working in townships. The surveys have identified a whole range of skills and expertise that are crucial for maintaining profitability. Examples of such skills and expertise are routine activities such as use of social media for marketing and networking, the assessment of preferences of customers, stock-taking, conducting inventory, assessing the demand for various goods, products and services, auditing and bookkeeping skills, skills in writing up business plans, skills in completing business loan application forms used in commercial banks and microfinance institutions, skills in using a personal laptop, keeping contact details and personal records of customers, interacting with partners and customers on a regular basis and asking them for constructive ideas, comments and suggestions, identifying a gap in the market by conducting market research, checking the actual selling prices of items, closely following discounted rates offered by business rivals and competitors, using email messages, and conducting online advertisements and digital networking and marketing. These indicators have been cited by Allais, Schoer, Marock, Koplema, Ramulong and Sibiya (2021) in their survey and have been shown to be helpful indicators of profitability in retail businesses. In a similar survey, Fatoki (2018) has found that the need for the above set of skills is relatively higher in emerging retail enterprises. Such enterprises struggle to raise enough fixed assets and collateral when they apply for business loans. Their business loan applications are often rejected due to their failure to prove that they have the capacity to benefit from the loan they are applying for.

Surveys carried out in the past by Herrington (2018), Marivate (2014), Fatoki (2018) and Worku (2018) have found that inability to use digital technology, failure to use social media for disseminating valuable information to potential customers, failure to attend training programmes that are directed at emerging retail enterprises, and inability to maintain working relationships with sources of business loans hinder profitability in the retail sector nationwide. On the global scale, entrepreneurial competence is relatively low (Herrington, 2018).

Herrington and Kew (2019) have shown that the total early-stage entrepreneurial activity index of South Africa (11%), Egypt (13.3%) and Morocco (8.8%) for the financial year 2017/2018. The ranks of the three African countries is given by South Africa (27th out of 54 African countries), Egypt (19th out of 54 African countries), and Morocco (37th out of 54 African countries). These figures suggest that there is a need to promote entrepreneurial learning and teaching both in theory and practical terms among South African youth.

In terms of maintaining profitability, the foremost challenges are low aptitude in entrepreneurial activities among the youth, lack of discipline, failure in saving aside part of revenue on a daily basis, inability to write sound business proposals to commercial banks and microfinance lenders, inability to maintain good working relationships with customers and business loan officers working in commercial banks, inadequate networking and marketing skills (Kanungo, Sethi & Biswal, 2021; Gamble, 2021; Chigbu & Nekhwevha, 2021).

3 Theoretical framework of research
Theories proposed by Joseph Schumpeter (1982) and Ying, Sindakis, Aggarwal, Chen and Su (2021) indicate that innovative methods of entrepreneurship are essential for conducting retail business operations profitably. The requirements include assessing needs in markets, evaluating what is in the market and at what cost, preferences expressed by consumers, identifying a gap in the market, and the ability to use appropriate, creative and innovative methods of filling the gap.

4 Objective of study
The study was conducted to explore the relationship between entrepreneurial competence and a set of influential factors that are known to affect entrepreneurial competence. These factors are maintaining profitability, writing up business plans that are acceptable to business loan providers such as commercial banks and microfinance agencies, ownership of fixed assets and collateral to be used for business loan applications, competence in gathering business and market-related information from the marketplace, level of competence in keeping records, bookkeeping, auditing and accounting, and maintaining a good working relationship with customers and partners.

The relationship between entrepreneurial skills and profitability in retail businesses has been demonstrated in surveys carried out by researchers such as Nguyen, Tsai, Nguyen, Vu and Dao (2020), Marivate (2014), Fatoki (2018), Herrington (2018) and Worku (2018:295-308) and Worku (2021A, 2021B). The relationship between sound business plans and profitability in retail businesses has been demonstrated in surveys carried out by McDonald and Eisenhardt (2020). Business plans written by retailers should identify gaps in the market along with strategies that are suitable for filling these gaps at an affordable cost. The strategies should be feasible or practical enough. Surveys carried out by Toxopeus, Achterberg and Polzin (2021) and Papadimitri, Pasioras and Tasiou (2021) have found that fixed assets and collateral are routinely demanded by business loan providers such as commercial banks and microfinance agencies. Loan providers use fixed assets and collateral as insurance. The relationship between gathering business intelligence and profitability in retail businesses has been demonstrated by Chen, Qi, Shen and Xu (2021). The authors have shown the relative advantages of social media, digital marketing, networking and e-commerce applications. The relationship between satisfactory bookkeeping, auditing and accounting skills and profitability in retail businesses has been demonstrated by Li, Woods, Wu (2020), Baporikar and Akino (2020) and Wong, George and Tanim (2021). Professional courtesy, friendliness to customers, honesty, punctuality and ethical conduct are highly valuable for ensuring customer loyalty and long-term profitability in retail business operations (Stjepic, Pejic Bach&BosiljVuksic, 2021; Nithya &Kiruthika, 2021).

5 Methods and materials of study

The survey was based on data gathered from 586 retail businesses operating in and around Braamfontein, which is a major business district of Johannesburg. Quantitative data was gathered from retailers by administering a questionnaire of study created by amending an existing questionnaire of study constructed by Worku (2018). A pilot study (Fellows and Liu, 2021) was carried out before the actual study to test if there was satisfactory content validity in the questionnaire of study. It was confirmed that measurement tools were internally consistent and sufficiently reliable by generating Cronbach Alpha coefficients (Pandey & Pandey, 2021). All such coefficients had magnitudes of 0.7756 or larger, as is displayed in Table 1.

<table>
<thead>
<tr>
<th>Construct used for performing factor analysis</th>
<th>Magnitudes of Cronbach Alpha coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capability in entrepreneurial activities</td>
<td>0.8306</td>
</tr>
<tr>
<td>Maintaining profitability in retail business</td>
<td>0.8212</td>
</tr>
<tr>
<td>Writing up a business plan of good quality</td>
<td>0.8117</td>
</tr>
<tr>
<td>Availability of fixed assets and collateral</td>
<td>0.8053</td>
</tr>
<tr>
<td>Gathering business related intelligence from the market</td>
<td>0.7989</td>
</tr>
<tr>
<td>Competence in bookkeeping</td>
<td>0.7883</td>
</tr>
<tr>
<td>Maintaining a good working relationship with stakeholders</td>
<td>0.7756</td>
</tr>
</tbody>
</table>

6 Results

Table 1 displays percentages for the basic attributes of the 586 retail operators chosen for the survey. The percentage of participants with basic competence in entrepreneurial activities is 65.4%. The percentage of businesses that were profitable during data gathering was 69.3%. The percentage of participants with basic competence in
writing up a business plan was 31%. The percentage of participants who could produce fixed assets and collateral to back up their business loan applications was 67%. The percentage of participants who gathered business related information from rivals and competitors at the marketplace on a regular basis was 59%. The percentage of participants with basic competence in auditing, bookkeeping, and accounting was 60%. The percentage of participants with good working relationships with their customers was 83%. About 55% of participants had worked for 11 years or longer in the retail market at the time of data gathering. About 13% of participants were involved with both footwear and textile retail trade. About 57% of participants were actual owners of the retail businesses they operated.

Table 1: Percentage estimates of basic attributes (n=586)

<table>
<thead>
<tr>
<th>Characteristics of retailers</th>
<th>Percentage of attribute</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic competence in entrepreneurial activities</td>
<td>65.4%</td>
</tr>
<tr>
<td>Profitability of retail business</td>
<td>69.3%</td>
</tr>
<tr>
<td>Basic competence in writing up a business plan</td>
<td>31%</td>
</tr>
<tr>
<td>Availability of fixed assets and collateral</td>
<td>67%</td>
</tr>
<tr>
<td>Gathering business related information from rivals and competitors at the market</td>
<td>59%</td>
</tr>
<tr>
<td>Competence in auditing, bookkeeping and accounting</td>
<td>60%</td>
</tr>
<tr>
<td>Competence in maintaining a good working relationship with customers</td>
<td>83%</td>
</tr>
<tr>
<td>Working in retail industry for 11 years or longer</td>
<td>55%</td>
</tr>
<tr>
<td>Working on both footwear and textile products</td>
<td>13%</td>
</tr>
<tr>
<td>Actual owner of retail business conducting operation</td>
<td>57%</td>
</tr>
</tbody>
</table>

Confirmatory factor analysis (Mueller and Hancock, 2018) was used for estimating Eigen values for influential predictors of entrepreneurial capability. Table 2 displays estimates obtained from factor analysis for the 3 most influential predictors of entrepreneurial capability. The results indicate that entrepreneurial capability has 3 influential factors. These are maintaining profitability on a regular basis, capability in writing up good business plans for securing business loans, and capability in producing fixed assets and collateral for securing business loan applications.

Table 2: Eigen values estimated from confirmatory factor analysis (n=586)

<table>
<thead>
<tr>
<th>Influential factors of entrepreneurial capability</th>
<th>Eigen value</th>
<th>Percentage explained variation</th>
<th>Cumulative percentage explained variation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maintaining profitability on a regular basis</td>
<td>1.64</td>
<td>30.89%</td>
<td>30.89%</td>
</tr>
<tr>
<td>Capability in writing up good business plans</td>
<td>1.60</td>
<td>26.47%</td>
<td>57.36%</td>
</tr>
<tr>
<td>Capability in producing fixed assets and collateral</td>
<td>1.49</td>
<td>24.55%</td>
<td>81.91%</td>
</tr>
</tbody>
</table>

7 Conclusion

The study has identified 3 influential factors that determine capability in entrepreneurship in the retail industry of Braamfontein. These 3 influential factors are capability in maintaining profitability, capability in writing up good business plans that are suitable for securing business loans, and capability in producing fixed assets and collateral for securing business loan applications.

List of references


17. [Accessed: 22 April 2023].


