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Impact of Level of Education and Experience on Profitability of Small Grocery Shops in South Africa

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Abstract
The study investigated the impact of level of experience and education on the profitability of the small grocery shops in the Mdatsane area in East London Metropole area in South Africa. The primary objective is to identify whether experience of the business owner affects the performance of the businesses. The secondary objectives were to determine whether age of the owner/manager, level of education, and the age of the business are significant variables that affect the financial performance of small business operations. Quantitative data was coded into SPSS for graphs and descriptive statistics. One way ANOVA analyses were carried out. The findings indicate that previous work experiences, education levels, age of the owner and the length of business operation have a significant impact on the profitability of the business.
Keywords: Experience, Education and Profitability

INTRODUCTION

Cant and Lightelm (2003:2) indicate that surveys of small business failure maintain that entrepreneurs often have good ideas and are competent but “they do not have a clue on how to run a business and have no underlying appreciation of business fundamentals”. Professional experience has been cited as an important factor affecting many aspects of entrepreneurial firms. Toohey (2009:13) argues that experience takes many guises (for example, industry experience, start-up experience, etc.) and breadth of experience is shown to be an important factor driving the performance of firms, with the number of previous jobs positively related to new firm performance (Lumpkin and Marvel 2007). Wanigasekara and Surangi (2011:1) elaborates that most of the researchers have found a strong link between business experience, education and business success. Thapa (2007) also found a positive association between education and small business success. The likelihood of failure was also found to be associated with the owner/manager’s work experience prior to business launch and education. For example, businesses where the owners had 10 or more years of work experience and/or 4 or more years of college/university education were less likely to fail (Boden and Nucci, 2000).

Chrisman, McMullan and Hal (2005) reported that the knowledge gained from previous experience is essential for small firm success. For example, Ensley, Pearson and Sardeshmukh (2007) found, perhaps unsurprisingly, that, to achieve high growth, a technology based start-up firm must possess both technical and business knowledge. An interesting point was that the absence of this knowledge does not imply the firm cannot be successful it just means that the firm should follow a more moderate growth strategy that would enable the founder to learn the necessary skills and abilities required to increase future growth rates (Ensley *et al.* 2007).

Khan and Butt (2002:1) found a negative relationship between the application of skills and abilities acquired pre-start-up and the performance of the new firm. A possible explanation for this unexpected result was that founders had incorrectly learned the skills and abilities or applied them too rigidly in the new business environment (Khan and Butt, 2002:1). Khan and Butt (2002:1) qualifies the finding that experience is a negative factor affecting firm performance and provides the following measures to combat the potentially hazardous affects of pre-start-up skills: Positive relationships between new firm performance and the application of skills acquired pre-start-up could be achieved when there is a broad range of flexibly applied skills as opposed to a more limited set of skills or skills applied without due consideration of the new firm's environment (Khan and Butt, 2002:1).

Robinson and Sexton (1994:141) argue that literature is full of folklore focusing on high school drop- outs that have made it big in the business world armed with education from the school of hard knocks. Robinson et al (1994) argue further that through cunning means and hard work an entrepreneur can succeeded without proper educational background. Robinson et al postulate that there is negative stereotyping of entrepreneurs as being relatively uneducated. On the other hand Gompers, Kovner, Lerner and Scharfstein (2006) attribute small business success of the above mentioned category of entrepreneurs to luck.

Cowling (2009:3) indicates that there has been an increase in entrepreneurship courses taught in schools, further education colleges and universities and government support programmes to help entrepreneurs gain the necessary skills and knowledge. Other interventions have assisted work placements in SMEs with a view to removing the perceived stigma about working in small business sector. Still the question remains whether entrepreneurship can be taught at all or whether it is an innate characteristic (Lee and Wong, 2006).

PROBLEM STATEMENT

Lumpkin and Marvel (2007) states that prior employment is the source of most start-up ideas, so before even commencement of the small business start-up process, a potential entrepreneur with previous work experience is in a better position than an entrepreneur with more limited experience. In contrast to this positive relationships, Lumpkin and Marvel (2007) also discovered that for radical innovation, it may be preferable to know less about the processes for developing the product and serving the market as this may lead to a myopic point of view which in turn would limit the radicalism of any future innovations. Mixed results obtained from the following studies (Lumpkin and Marvel, 2007; Rosa, 2009; Ucbasaran, Alsos and Wright, 2008) is evidence to the lack of conclusiveness within this research area. The current research empirically tests whether experience, age of the owner, level of education and age of the business have a significant impact on the profitability of small business in the South African context.

OBJECTIVES OF THE STUDY

The primary objective is to identify whether experience of the business owner affects the performance of the businesses. The secondary objectives were to determine whether age of the owner/manager, level of education, and the age of the business are significant variables that affect the financial performance of small business operations. This study brings in a South African perspective to the growing body of knowledge on experience and small business performance.

HYPOTHESES

H1a: Previous work experience of the owner has a significant impact on the profitability of the business

H1b: Previous work experience of the owner does not have a significant impact on the profitability of the business.

H2 a: The age of the SME owner/manager has a significant impact on the profitability of the business.

H2 b: The age of the SME owner/manager does not have a significant impact on the profitability of the business.

H3a: The level of education of the owner impacts on the financial performance of the business.

H3b: The level of education of the owner does not impact on the performance of the business.

H4a: The age of the firm has an impact on the performance of the firm.

H4b: The age of the firm does not have an impact on the performance of the firm.

LITERATURE REVIEW

The small business environment

South Africa lags behind other developing countries in promoting the growth and sustainability of small businesses. On start-ups, the Global Entrepreneurship Monitor (GEM) 2008 figures show that eight in 100 adult South Africans own a business that is less than 3.5 years old - significantly behind other low to middle income countries, where on average 13 out of 100 adults are building new businesses. The GEM (2008) report also states that only 2.3 percent of South Africans own businesses that have been established for over 3.5 years, indicating a high failure rate among start-ups – with South Africa ranking 41st out of 43 countries in the prevalence (survival) rate for established business owner-managers.

Sha (2006:1) expounds that is generally accepted that SMEs are becoming increasingly important in terms of employment, wealth creation, and the development of innovation. However, there are considerable doubts about the quality of management in this sector with policy-makers suggesting that there are particular weaknesses in innovation, a lack of financial acumen, marketing, entrepreneurial flair, practical knowledge, and human resource management. As a result, many firms do not reach their full potential and fail to grow.

Demographic factors influencing small business performance

Mazzarol, Volery, Doss and Thein (1999) states that demographic factors such as age, gender, education and work experience has a considerable impact on entrepreneurial intention and venture success. Kristiansen, Furoholt and Wahid (2003) in their study found a significant relationship between age of an entrepreneur and business success. Furoholt and Wahid (2003) indicated that older entrepreneurs were more successful. On the contrary, Sinha (1996) indicated that younger entrepreneurs tend to be more successful. Van Aardt, Van Aardt, Bezuidenhout and Mumba (2008:11) posits that age is no barrier to entrepreneurship success. The average age of entrepreneurs starting a business is the mid-thirties and there are numerous examples of entrepreneurs starting businesses in their sixties. The critical factors are the relevant know –how, experience, and contacts that make it possible to recognize and pursue opportunities (Van Aardt, Van Aardt,Bezuidenhout and Mumba,2008:11).

The characteristics of the enterprise such as the length of the time the business has been in operation and size of the enterprise is of paramount importance to the survival and success of small business. In a study conducted by Kristiansen, Furuholt and Wahid (2003) the outcome indicated that the length of time an enterprise has been in operation was significantly related to the business success. However according to the study by Indarti and Langenberg (2004) length of time was not significantly related to business success.

The profitability of a business as an indicator of business performance

Profitability is essential for continued business operations. Financial capabilities are critical in supporting functional strategies and making required infrastructure investments. For example, a firm with adequate funding can expand or invest, or can provide customer financing (Siropolis, 1997:385). Return on investment (ROI) is a traditional approach of evaluating return relative to the expenditure required to obtain that return. It is calculated as the discounted return (net of the discounted expenditure) expressed as a percentage of the discounted expenditure (Correira *et al.,* 2003:ch1, p.11). Correira *et al.* (2003), further, notes that the objective of financial management is the maximisation of wealth and a structured analysis should aim towards measuring how effectively this objective is achieved. Siropolis (1997:385) argues that the best yardstick for estimating the financial return is called return on investment, and is computed by dividing net profit by investment. The return on investment tells an entrepreneur how many cents he earns in a year for every rand of investment in the same way that an interest rate tells savers how much they earn for each rand of savings at the bank. This study uses return on equity (ROE) as the overall indicator of success. While profit maximisation would not be a primary objective, a satisfactory return on shareholders or owners funds would be required to maximise wealth.

METHODOLOGY

Research approach

The study was conducted using the quantitative paradigm, which is a form of conclusive research using large samples and reasonable structure data collection procedures (Struwig and Stead 2007:4). The descriptive research approach was used to describe the key elements of the research namely education, experience and profitability. Descriptive analysis provides a very useful initial examination of the data, even if the ultimate concern of the researcher is inferential in nature.

Population and sample

For the purpose of this study the population could be regarded as all small grocery shops in Mdatsane. Spaza shops, hawkers and street vendors were not included in the list. A non-probability sampling procedure was used and a convenient sample was drawn, purely on the basis of availability and accessibility and being quick and economical. The final sample comprised 36 respondents. The only requirements were that:

- Respondents must be owners/ managers of the grocery shop; and
- Respondents must be involved in the day to day running of the business.

Research instrument

The empirical research component of the study consisted of a self-administered questionnaire**.** The questionnaire designed used several questioning techniques. The study employed five point Likert scaled questions, multiple choice rating questions, dichotomous questions, open ended questions and single answer questions respectively. The questions in the questionnaire covered biographical details of the respondents as well as the key themes of the research such as experience and financial performance of the grocery shops. The questionnaire was pre-tested amongst five of the respondents identified in the sample to ensure reliability and validity.

Data gathering

The researcher visited small business shops owned by black individuals in Mdantsane and administered questionnaires to the shop owners/managers. The researcher covered the area of study in 4 weeks. Approximately 30 minutes were required to complete the questionnaire.

Data analysis

The researcher was able to use statistical techniques of inference to test the hypotheses. This was primarily based on the software package MINITAB Release 14. MINITAB Statistical Software is a comprehensive statistical tool for managing, analysing and displaying information. Among the features available are the management and manipulation of data and files, producing graphs, analysing data, assessing quality design, experiment and generate reports (Anon, 2011). Based on the distribution of the descriptive statistics for this study, a normal distribution was used to perform the inferential analysis such as 'ANOVA One Way'.

RESULTS

Table 1, below, describes the findings of the study in respect of the profile of the respondents.

Table 1 Profile of respondents

Status of respondent	***Frequency***	***Percentage***
Owner/Manager	17	47.2
Manager	19	52.8
Total	36	100

The study showed that there were almost an equal number of owners/managers running the small business shops. This is in contrast to what Hart and Padayachee (2000:683) determined in their research of Indian small business shops in Durban that 94% of the shops are managed by their owners.

Table 2 Gender of respondents

Gender of respondents	***Frequency***	***Percentage***
Male	25	69.4%
Female	11	30.6%
Total	**36**	**100%**

This study highlights that there is a significant number of males (69.4%) who operate in the small retail firm area in South Africa. This could be caused by the unemployment rate in South Africa.

Table 3: Previous work experience of the respondents

Previous work experience	***Frequency***	***Percentage***
Yes	3	
No	33	
Total	**36**	**100**

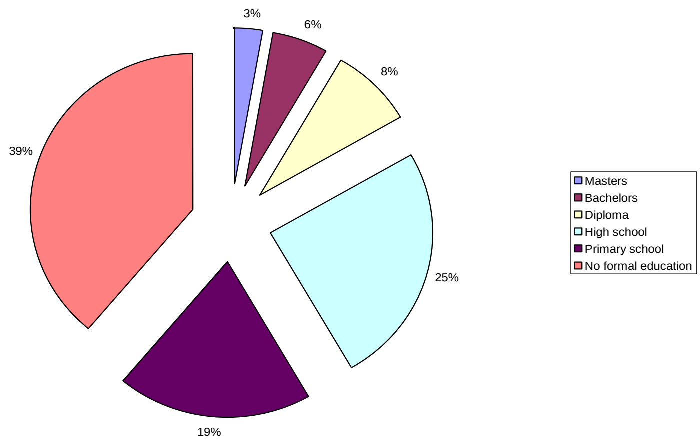
The study at hand highlighted that most of the respondents did not have previous experience of running a business. Only 3 of the respondents had previous experience of running a business. It can, therefore, be concluded that the changing economic conditions in South Africa such as the reduction in formal employment, low entry barriers and the growth of small, medium and micro enterprises could have attracted the greater portion of the respondents to manage a grocery shop. A one ANOVA way analysis of Return on Equity (ROE) against previous experience revealed that previous experience does has significant effect in operating profitably (F 7.718, p 0.000**).The hypothesis that states that H1 a: Previous work experience of the SME owner/manager has a significant impact on the performance of the business is there accepted.**

Table 4 Age of respondents

Age of respondents	***Frequency***	***Percentage***
61 and above	3	8.3
51 to 60	5	13.
41 to 50	7	19.4
31 to 40	7	19.4
21 to 30	9	25
20 and below	5	13.9
Total	**36**	**100**

The study, at hand, determined whether the age of the respondents, as the independent variable has an effect on the profitability, of retail firms which is the dependent variable. The study determined that the age category, 21 to 30, was the most prominent in owning or managing a retail firm followed by the age categories 31 and 40. A one ANOVA way analysis of Return on Equity (ROE) against age revealed that age does has significant effect in operating profitably (F 0.72, p 0.586)**.The hypothesis that states that H2 a: Age of the SME owner/manager has a significant impact on the performance of the business is there accepted.** The study findings are almost similar to a study done in America by Muijanack, Vroonhof and Zoetmer (2003:6) that determined that the optimum age for entrepreneurs was 25-35. This age group was positively related to the probability of the business making better profits.

Figure 2 Education levels of respondents



Only 17% of the retailers have a post Matric qualification, namely a master's degree (3%), a bachelor's degree (6%) or a diploma (8%). The study also showed that 25% of the respondents have attained high school education. The study, further, reveals that 39% of the respondents have never been exposed to formal education. Henceforth, the survey seems to reveal that inadequate education is a major reason small grocery shops are unsuccessful.. The conclusion of the study at hand also supports the findings of Van der Sluis, Van Praag and Vijverberg (2005:2) who determined that in least developing countries education is a major drawback for the success of small firms.

The education levels of the entrepreneurs were correlated with net profit to find whether education has an impact on the business performance. These residual scores were then correlated with other possible determinants of net profit in the questionnaire, thereby establishing the marketing practices of the more successful retailers. The correlation found that r = 0, 3792 and p=0,003. In this case, the p value is significant at a 95% confidence level which shows that education has an impact on the overall business performance as measured by net profit.

Therefore the hypothesis that states that H3a: The level of education of the owner impacts on the financial performance of the business is accepted

Table 5 Attendance of Workshops

Presentations	***Frequency***	***Percentage***
Seminars	10	28.00
Workshops	5	13.8
On the job training	2	5.55
Did not attend	19	52.7
Total	**36**	**100**

The attendance of workshops was poor with 52.7% of the respondents citing that they did not attend any workshops. This finding is a cause for concern given the low education levels of the respondents. The constraints that the respondents identified for their lack of participation in training included time and cost. Owners, however, stipulated that time constraints was their major reason for non-participation workshops.

With respect to time constraints, the SETAS can establish workplace learning. This implies trainers will train shop workers/owners in their shops without having the trainees travelling to training venues elsewhere. This will enable business owners to acquire the necessary experience to run and manage their businesses.

Table 6 Is training necessary for your organisation?

No of respondents	***Frequency***	***Percentage***
Yes	5	13.89
No	31	86.11
Total	**36**	**100**

The majority of the respondents (86,11%) did not regard management training as necessary. However, this negatively influenced their businesses. Furthermore, managers viewed training programmes as a punishment rather than an incentive or opportunity.

The average number of years which owners/managers have in running their business was found to be 4,25. The findings suggest that the majority of small business shop owner/managers started to manage their small business shops over the past five years. This can, be further, supported by the findings of Ligthelm and Cant (2002:13) who determined that most small business shops have a short life span of fewer than five years. This implies that retail shops, in this study, are likely to cease operations before the fifth year. The GEM Report (2008) figures show that eight in 100 adult South Africans own a business that is less than 3.5 years old - significantly behind other low to middle income countries, where on average 13 out of 100 adults are starting new businesses. GEM also reports that only 2.3 percent of South Africans own businesses that have been established for over 3.5 years, indicating a high failure rate among start-ups
The mean number of years which small firms in Mdatsane operate is 5.19 years. This suggests that most of the shops operating in Mdatsane have been in business for a number of years, and should have established customer bases and relationships with other stakeholders such as banks and suppliers. The survey established that there is a positive relationship between the number of years that the business has been in operation and the return on equity (F 2.49, p=0.033). **The following hypothesis which states that H4a: The age of the firm has an impact on the performance of the firm is accepted.** The study at hand contradicts the Ebony Consulting Group (2006), which established that there was no relationship between the number of years by which a small firm is in operation and its profitability.

The motivation and experience of owners/ managers for assuming control of their shops play an important role in determining the success of their business. The alternatives that the respondents gave are indicated in table 7.

Table 7 Motivation to run a small business shop

Motive	***Frequency***	***Percentage***
To become own boss	20	55
Through a lack of choice (family business)	2	5.6
Through redundancy (job loss)	8	22.2
As a sideline (An additional source of income) activity	6	17.0
Total	**36**	**100**

The primary reason provided by respondents for operating a small business shop was the opportunity to become one's own boss (55%). The above observation was also determined in America in that the start up of 51% of small retail firms was also influenced by the same reason (United States Small Business Administration (USSBA), 2011). However, redundancy was also identified as an important reason South Africans operated small business shops. This shows that some of the respondents were forced into the retail business as a result of unemployment in South Africa.

The empirical results therefore suggest that:
H1a: Previous work experience of the owner has a significant impact on the profitability of the business
H2 a: The age of the SME owner/manager has a significant impact on the profitability of the business.
H3a: The level of education of the owner impacts on the financial performance of the business.
H4a: The age of the firm has an impact on the performance of the firm.

CONCLUSIONS

The responses on the key themes that affect profitability covered in research such as previous work experience, age of the SME owner/manager, level of education of the owner and the age of the firm are elaborated.

Conclusions on previous work experience

The study at hand highlighted that most of the respondents did not have previous experience of running a business. Only 3 of the respondents had previous experience of running a business. Although Toohey (2009) indicates that the existing literature on the influence of founder experience on the performance of new ventures has found mixed results. This study found a positive link between experience and performance of grocery shops. This implies that potential grocery shop owners can benefit from prior experience. This experience can be gained by establishing shops/projects at Universities/ Techikons (Techincal colleges) where students can have hands on experience managing the business. Potential shop owners can also serve as apprentices in large supermarkets before managing their own business.

Conclusions on the age of the SME owner/manager

The study, at hand, determined whether the age of the respondents, as the independent variable has an effect on the profitability, of retail firms which is the dependent variable. The study determined that the age category, 21 to 30, was the most prominent in owning or managing a retail firm followed by the age categories 31 and 40. It becomes apparent that the age group 21 to 30, which is the majority (25%) in the study, do not attend or participate in workshops and, also, do not regard training as necessary. This is a cause for concern, since the above age category is regarded as the active age in the economy of a country. The shop owners/managers in the study, however do not exhibit such activeness. Incorporating entrepreneurial courses in the primary and high school curriculum may also improve the entrepreneurial mindset of grocery shop/SME owners and managers.

Conclusions on the level of education of the respondents

Grocery shops could also make use of skills available in the graduate labour market. Graduates are underrepresented in the grocery sector. This could be the result of the low wages paid by the sector. Also managers/owners could often be wary to employ graduates because they are perceived as unlikely to remain committed over the long term due to ambitious career plans. However, recruiting more unemployed graduates or employing graduates on a part time basis will result in the greater flow of talent, energy and innovation in the sector.

Furthermore, many grocery shops lack time, resources, technology or expertise to research and develop new business ideas and innovations. Higher Education Institutions (HEI) can potentially provide access to expertise, technology and resources that could be of assistance to grocery shops. Working in partnership with research departments can lead to new commercial developments that a grocery shop could not have achieved on its own. Student projects and placements can offer grocery shops access to a wide range of knowledge, expertise and resources. For many start-up businesses, some form of mentoring is needed in varying degrees to grow business skills. One to one mentoring is effective but expensive and unless economies of scale can be achieved, providing these support services to small enterprises is difficult to sustain

Conclusions on the age of the firm

The average number of years which owners/managers have in running their business was found to be 4,25. The findings suggest that the majority of grocery shop owner/managers started to manage their grocery shops over the past five years. This can, be further, supported by the findings of the GEM report (2008) which determined that most 2.3 percent of South Africans own businesses that have been established for over 3.5 years have a short life span of fewer than five years. This implies that retail shops, in this study, are likely to cease operations before the fifth year. The mortality rate of SMEs in South Africa has been a cause for concern. The different interventions by government and private agencies are not reaping the desired fruits. Furthermore the government is not taking the efforts of SMEs seriously since there is no dedicated Small Business Administration Department that collects data on SMEs in South Africa. Without a dedicated database of SMEs in South Africa it is difficult to track the mortality rates of SMEs. Furthermore it is impossible to tailor products that suit a certain sectors for example the grocery sector since no information is available about the operations of grocery SMEs in South Africa. This calls for the government to merge agencies such National Youth Development, Small Enterprise Development, The Business Place and different municipal Local Economic Development (LED) programmes. The merging of the different agencies will enable better utilization of resources and manpower to assist SMEs.

LIMITATION

The study only focused on grocery shops in the East London Metro area in South Africa. Small business in the other sectors of the economy and which are outside the targeted geographical area were left out due to time and financial constraints.

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