

The Entrepreneurial Orientation of Micro Enterprises in the Retail Sector in South Africa

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ABSTRACT This study investigated the entrepreneurial orientation of micro enterprises in the retail sector in South Africa. Data was collected through the use of self-administered questionnaires in a survey. Data analysis included descriptive statistics and factor analysis. The Cronbach's alpha was used to measure reliability. The results indicated that micro enterprises are adept in introducing new product lines and also making changes to the product line. However, micro enterprises are weak in the area of research and development. The results also showed that micro enterprises are on the average weak in the area of proactiveness. Micro enterprises are followers rather than leaders and are not risk lovers. Recommendations on how micro enterprises can improve entrepreneurial orientation are suggested.

INTRODUCTION

South Africa suffers from high rate of unemployment with an official unemployment rate of estimate of 24.7% (Statistics South Africa 2013). Micro-enterprises (a part of the broad small medium and micro enterprises sector (SMMEs)) are expected to be an important vehicle to address the challenges of job creation, sustainable economic growth, equitable distribution of income and the overall stimulation of economic development in South Africa (FinMark Trust 2006). According to Rolfe et al. (2010), micro-enterprises are the most pervasive entrepreneurial activity in South Africa. 70% of the micro-enterprises are in the retail and commerce sectors. Gauteng Province Provincial Treasury (2012) points out that the retail industry in South Africa has grown considerably over the past few years with important contributions to employment and economic growth.

Despite the highlighted contributions of micro enterprises in the retail sector in South Africa, these enterprises suffer from a high failure rate. Van Scheers (2010) in a study of small groceries shops (mainly micro-enterprises) in South Africa points out that the failure rate of micro-enterprises in the retail sector is between 70% and 80. Adcorp (2012) reveals that around 440,000 micro and small enterprises (including those in the retail sector) have closed in the last five years in South Africa.

Various challenges cause the high failure rate of micro enterprises in the retail sector in South

Africa. Awang et al. (2010) point out that the reasons for the failure among SMMEs are due to the weaknesses in their strategic framework to harmonize firm's entrepreneurship strategy. According to Aktan and Bulut (2008) and Chen et al. (2008), today's firm managers are faced with rapidly changing and fast-paced competitive environment. To cope with such challenges an entrepreneurial approach to strategy making may be vital for organisational success. Van Geenhuizen et al. (2008) note that Entrepreneurial Orientation (EO) has emerged as a possible antidote to the problems facing businesses that wish to achieve a sustained competitive advantage. Ligthelm (2011) suggests that SMMEs in South Africa suffer from severe competitive pressures from large firms implying that SMMEs operate in a hostile rather than a benign environment. Studies such as Avlontis and Salavou (2007), Kraus et al. (2012), Fatoki (2012) find a positive relationship between EO and firm performance. Thus EO can be of significant importance in improving the performance and reducing the high failure rates of SMMEs in South Africa

Objective of the Study

The failure rate of micro enterprises is very high in South Africa. The literature significantly supports a positive relationship between entrepreneurial orientation and firm performance. The objective of this study is to measure the EO of micro enterprises in the retail sector in South Africa.

Literature Review

Definition of Entrepreneurial Orientation

Covin and Wales (2011) point out that the term EO does not have a universally accepted definition. Moreno and Casillas (2008) note that EO is the organisational decision-making proclivity favouring entrepreneurial activities. EO is a way to act entrepreneurially within an established organisation. Van Geenhuizen et al. (2008) note that autonomy, innovativeness, risk taking, proactiveness, and competitive aggressiveness as a set of behaviours that reflect EO. Covin and Lumpkin (2011) note that EO is a process through which individuals in an established firm pursue entrepreneurial opportunities to innovate without regard to the level and nature of currently available resources.

Theoretical Framework of Entrepreneurial Orientation

Covin and Wales (2011) observe that the theoretical foundation of EO research can be traced to the work of Mintzberg (1973), Khandwalla (1976, 1977), Miller (1983) Covin and Slevin (1989), Miller and Friesen (1982) and Lumpkin and Dess (1996). Mintzberg (1973) suggests three modes of strategy-making: the planning, the adaptive and the entrepreneurial. The *planning mode* involves systematic information gathering for situational analysis generating alternate strategies and selection of appropriate strategy. The adaptive mode focuses on reactive solutions than proactive search for new opportunities. The entrepreneurial mode is based on active search for entrepreneurial opportunities and growth. Khandwalla (1976/1977) points out that entrepreneurial management style refers to bold, risky and aggressive approach to decision-making in contrast to a more cautious stability-oriented approach. Covin and Slevin (1989) find that firms operating in hostile competitive environments, characterised by intense rivalry among firms tend to adopt innovations with greater frequency than firms operating in more benign competitive settings. Miller (1983) observes that an entrepreneurial firm is one that engages in product market innovation, undertakes somewhat risky ventures, and is first to come up with proactive innovations, beating competitors to the punch. Miller (1983) used the dimensions of innova-

tiveness, risk taking and proactiveness to characterize and test entrepreneurial orientation. Lumpkin and Dess (1996) expanded the numbers of dimensions that characterise EO to five by adding competitive aggressiveness and autonomy. Competitive aggressiveness refers to how firms relate to competitors in the market place. Autonomy refers to the key independent actions of an individual in bringing forth an idea or vision and carrying it through to completion.

Entrepreneurial Orientation and Firm Performance

Aktan et al. (2008) find that EO activities in firms have resulted in diversified products and markets, as well as being instrumental to producing impressive financial results. EO is also positively linked to intangible outcomes, like knowledge, skill development, and job satisfaction. Awang et al. (2010) point out that the ability of a firm to stay competitive is directly related to a firm's intensity to take calculated risks. Fairouz et al. (2010) and Hung and Chiang (2010) point out that innovation in the firm of new products, services and processes can lead to sustainable competitive advantage. Zampetakis et al. (2011) find that firms with a more entrepreneurial orientation (EO) perform better than firms that are not. Van Geenhuizen et al. (2008) note that EO can help a firm to create and sustain competitive advantage in the marketplace.

RESEARCH METHODOLOGY

The survey was conducted at the Central Business District of Johannesburg, Gauteng province of South Africa. The empirical approach consists of data collection through the use of self-administered questionnaire in a survey. According to the Parliament of the Republic of South Africa (1995), a micro-enterprise is a business with (1) total full-time equivalent of paid employee of less than 5 (2) total annual turnover of less than R150,000 and (3) total gross asset value (fixed property excluded) of less than R100,000. Because of the difficulty in obtaining the population of micro-enterprises in the study area, convenience sampling and the snowball sampling methods were used. The use of convenience sampling is consistent with previous empirical studies on micro and small enterprises in South Africa such as Farrington and Matcha-

ba-Hove (2011) and Arko-Achemfuor (2012). A pilot study was conducted on the survey instrument used in this research with fifteen owners of micro enterprises in the retail sector in order to ensure face and content validity. The questionnaires were given to the owners of the micro-enterprises to complete. Owners were assured of confidentiality with regard to the data collected. Both Likert scale questions and dichotomous questions were used to elicit responses from the respondents. The Cronbach's alpha was used to measure reliability. Data analysis included univariate analysis and factor analysis. This study used the Miller/Covin and Slevin (1989) scale to measure EO. Five point Likert scale ranging from "1 strongly disagree to 5 strongly agree" was used. Scores on the items were averaged to produce an overall EO index.

RESULTS AND DISCUSSION

126 questionnaires were distributed to the owners of micro-enterprises in the retail stores in the study area and 54 questionnaires were returned after repeated phone calls and visits. The response rate was 42.8%. 50 respondents were sole proprietors and 4 partnerships. 33 were males and 21 females. 30 respondents have post-matric qualifications, 24 respondents have Matric or below. 11 respondents have no employee, 17 respondents have one employee, 19 respondents have two employees and 7 respondents have three employees.

Table 1 depicts the summary of the descriptive statistics for entrepreneurial orientation items. Table 2 shows the results of the factor

Table 1: Descriptive statistics for entrepreneurial orientation items

<i>EO items</i>	<i>Mean</i>	<i>Standard deviation</i>
My enterprise has in the past years introduced many new product lines	4.02	1.04
My enterprise has in the past years made frequent changes to its product lines	3.97	1.07
My enterprise gives special attention to research and development	1.34	0.92
In general, my enterprise has the tendency to be ahead of others in introducing new products	2.88	0.79
In dealing with competition, my firm often try to initiate actions to competitors, for which competitors respond	2.86	0.97
My enterprise acts boldly in order to achieve objectives	3.05	1.09
My enterprise typically adopts bold aggressive posture in exploring potential opportunities	2.78	1.02
My firm has a strong preference for high risk projects with chances of high return	1.78	0.91

Table 2: The results of the factor analysis

<i>EO items</i>	<i>Factor 1 Innovation</i>	<i>Factor 2 Proactiveness</i>	<i>Factor 3 Risk taking</i>
My enterprise has in the past years introduced many new product lines	0.891		
My enterprise has in the past years made frequent changes to its product lines		0.726	
My enterprise gives special attention to research and development	0.402		
In general, my enterprise has the tendency to be ahead of others in introducing new products	0.692		
In dealing with competition, my firm often try to initiate actions to competitors, for which competitors respond		0.527	
My enterprise acts boldly in order to achieve objectives			0.669
My enterprise typically adopts bold aggressive posture in exploring potential opportunities			0.527
My enterprise has a strong preference for high risk projects with chances of high return			0.401
Eigen value	5.21	3.74	2.02
Percentage of variance explained	36.26	21.48	15.35
Cronbach's alpha	0.708	0.779	0.721

Source: Principal components factor analysis with varimax rotation: Kaiser- Meyer-Okin test of sampling adequacy= 0.746; Bartlett test of sphericity = 401.029, p=0.001

analysis that was conducted to confirm the construct validity of the EO variables. Three factors with Eigen values greater than one were identified. Factor one is labelled as innovation and is made of three variables. Factor two is labelled as proactiveness and is made up of two variables. Factor three is labelled risk-taking and is made up of three variables. The Cronbach's alphas are greater than 0.700 for the three factors indicating the reliability of the factors. The results as depicted by Table 1 indicate that micro enterprises are adept in introducing new product lines and also making changes to the product line. However, micro enterprises are weak in the area of research and development. The mean for the three measures of innovativeness is 3.11. Studies such as Madrid- Guijarro et al. (2009) and Cordeiro and Vieira (2012) find that the most significant barriers associated with innovation and research and development in small firms is cost. The results also show that micro enterprises are on the average weak in the area of proactiveness. The mean for the two measures of proactiveness is 2.87. Micro enterprises tend to be behind other firms in introducing new products and tend to wait for competitors to initiate actions. In addition, the results indicate that micro enterprises have a weak preference for high risk projects. The mean for the three measures of risk-taking is 2.54. The results suggest that micro enterprises are followers rather than leaders and are not risk lovers. Ahmed and Chowdhury (2009) and Faisal (2013) point out that small firms tend to be reactive rather than proactive because of their attitude to risk. According to the Telegraph (2013), small businesses are in general shunning risk and have adopted a "notable conservatism" and are less opportunistic in the running their enterprises. Naldi et al. (2007) find that risk taking is one of the vital attributes of successful entrepreneurs.

CONCLUSION

Micro enterprises are of great importance to the reduction of unemployment, poverty and income inequality in South Africa. However, micro enterprises suffer from a high failure. Entrepreneurial orientation is one of the strategies that can lead to sustained competitive advantage and improved performance of micro enterprises. The objective of this study is to measure the EO of micro enterprises in the retail sector in

South Africa. The results indicate that micro enterprises are adept in introducing new product lines and also making changes to the product line. However, micro enterprises are weak in the area of research and development. The results also show that micro enterprises are on the average weak in the area of proactiveness. Micro enterprises tend to be behind other firms in introducing new products and tend to wait for competitors to initiate actions. In addition, the results indicate that micro enterprises have a weak preference for high risk projects. The results suggest that micro enterprises are followers rather than leaders and are not risk lovers.

RECOMMENDATIONS

It is important for micro enterprises to imbibе the dimensions of EO which are risk-taking, competitive aggressiveness, autonomy, proactiveness and innovativeness to improve performance. Micro enterprises need to evaluate its levels of entrepreneurial orientation. This could be done through an internal audit. If a lack in its EO is found, strategies to incorporate EO into the processes of micro enterprises should be developed. Owners of micro enterprises must provide the leadership style that will allow innovation and creativity to thrive. Government agencies responsible for SMEs such as the Small Business Development Agency, Provincial Development Corporations, and the National Youth Development Agency should organise training and seminars for the owners of micro enterprises on the dimensions of EO.

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