

THE ROLE OF MARKETING SKILLS IN MITIGATING BUSINESS FAILURE AMONG ETHNIC SME OWNERS

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Abstract: *Small and Medium Enterprises (SMEs) play a crucial role in the African economy, contributing significantly to employment and GDP. However, the high failure rates among SMEs pose a significant challenge, with research indicating substantial failure rates within the first few years of operation. This study focuses on ethnic SME owners in South Africa, aiming to investigate the correlation between their marketing skills and business failure rates. Using a sample of 2000 SME owners across nine provinces in South Africa, the research underscores the importance of enhancing managerial training, particularly in areas of administration, financial management, and marketing. Such skills are crucial for equipping SME owners with the ability to navigate challenges and make informed decisions, thereby improving business sustainability and economic growth. The findings highlight the critical need for targeted training interventions that go beyond basic skills, addressing specific business-focused competencies to foster SME resilience and success.*

Keywords: *SMEs, Ethnic entrepreneurs, Marketing skills, Business failure, South Africa*

INTRODUCTION

In recent years, many countries have suffered from economic recession and high unemployment rates. This situation has tended to increase the attention paid by policy makers and political decision makers to the potential role of entrepreneurs as a possible solution to rising unemployment rates and as a recipe for economic prosperity. Particular interest is being focused on the marketing skills training needs of small business. Specific efforts are also being directed at establishing marketing training needs and promoting marketing training (Guler, 2005).

The aim of the research is to establish the correlation between marketing skills of ethnic SME owners and business failure. Marketing training needs analysis will enable the ethnic South African SME owners to address existing problems in an effective and cost-efficient manner. The aim of marketing training is to train entrepreneurs to identify and satisfy customer's needs ensuring profitable enterprises. The following marketing skills were observed by (Guler, 2005) influencing SME success:

Insufficient segmentation and positioning Inability to identify target market.

Failure to conduct market research.

Poor product/service.

No knowledge of customer preferences.

Lack of competitor knowledge.

Marketing training needs

AIM AND OBJECTIVES

The research aims to establish the correlation between marketing skills of ethnic SME owners and business failure.

The objectives of the research are to:

Establish the correlation between marketing skills of ethnic SME owners and business failure

Investigate the perceptions of ethnic SME owners towards obtaining marketing skills

The next step the researchers will take is to conduct a literature review. According to one of the purposes of literature review is for the researchers to discover explicit recommendations for further research that will enable them to focus their own research question and sub problems.

To attain the objective of this article, the following hypothesis was drawn:

H₁: There is a correlation between marketing skills of ethnic SME owners and business failure.

LITERATURE REVIEW

In South Africa the managerial empowerment of previously disadvantaged people happens through the system of education, internship and mentorship. The acquisition of management skills through education and experience indicate that management is a science, a profession, and an art. Management education is very important to the South African economy.

MARKETING SKILLS

For the purpose of this study, marketing skills will be defined as the ability to see past firm's offerings and their features, to be able to see how they satisfy the customer's needs and why the customer finds them attractive (Guler, 2005). The following marketing issues are often cited as influencing SME success.

Poor locality.

Insufficient marketing.

Inability to identify target market.

Failure to conduct market research.

Poor product/service.

No knowledge of customer preferences.

Lack of competitor knowledge.

MANAGERIAL FUNCTIONS

Management practices as observed by Burgess et al. (2002) refer to what managers do in the normal course of events to use human and material resources to carry out the organization's strategy.

According to Robbins (1998: 2), managers perform four managerial functions in their normal course of events: planning, organizing, leading and controlling. The first function consists of defining goals, analysing strategies and developing plans to coordinate activities. The second activity refers to deciding on the activities to be done, who is to do them, how the tasks are to be grouped, who reports to whom, and where decisions are to be made. Leading involves motivating and directing employees, selecting channels of communication and resolving conflict. Controlling functions are those needed to monitor and correct activities so that they are accomplished as planned.

THE SOUTH AFRICAN SME

Generally, a SME owner has good business ideas and can turn the ideas into reality. Turning an idea into reality by an entrepreneur calls upon two sorts of skills, which is general and people management. General management skills are required to organise the physical and financial resources needed to run the business and people management skills are needed to obtain the necessary support from others for the business to succeed. Management skills and business knowledge are an indication of how well an entrepreneur can perform important tasks and activities related to the functions of a business.

THE ETHNIC SME OWNERS

In the past "traditional leaders" were encouraged in South Africa to become ethnic entrepreneurs, who could acquire the status of "royalty" and enrich themselves provided they were prepared to do the bidding of the apartheid regime. To lend some dignity to this deceitful exercise, the regime also assisted its appointees to constitute what were purported to be modern political parties, but was in fact machines for the dispensing of patronage. The Chief of the Buthelezi clan in KwaZulu proved to be the most adept at using the instruments of the "homeland" system in constructing a political machine and an effective system of patronage.

The South African culture has changed and currently, the ethnic SME owner manages 53 percent of small business ventures in South Africa. The ethnic SME owner uses participative leadership style of management to obtain cooperation from the workers for the achievement of organizational goals, through participation in decision making (Mitchel, 2003). Improved manager-worker relations, higher moral and job satisfaction, and decrease dependence are some of the advantages of this leadership style. The drawback of the participative style is that sometimes it decreases productivity and dilutes decisions in order to please everyone (Guler, 2005).

MAIN GROUPS OF MANAGERIAL SKILLS

Managerial skills are classified into four main groups. The first group focuses on participation and human relations skills, e.g. constructive communication and team building, while the second group focuses on competitiveness and control, e.g. assertiveness, power and influence skills. A third group focuses on innovativeness and entrepreneurship, such as creative problem solving, while a fourth group focuses on maintaining order and rationality, e.g. managing time and rational decisionmaking. Managers require certain managerial skills to manage a business successfully, namely technical,

conceptual, interpersonal, communication, analytical, decision-making, administrative and problem-solving skills (Burgess et al., 2002).

RESEARCH METHODOLOGY

Secondary and primary sources were used to gather information. The main secondary sources used were journals, articles, press reports, and books. A quantitative research study was conducted that creates an opportunity to generalise about the population. The population of the study included all the small businesses in South Africa. The sample frame of 150 000 small business owners were obtained from Department of Trade and Industry list (DTI, 2001: 48) and probability sampling was used to select 2000 small businesses.

As the aim of this research was to gather information to analyze the relationship between the marketing and managerial skills and the success of ethnic SME owners in South Africa, 2000 questionnaires were posted to small business owners, 222 questionnaires were posted to each of the nine provinces of South Africa. The owners have answered the questions and this variable was controlled by specific elimination question in the questionnaire excluding any other person to complete the questioner of the 2000 questionnaires posted, on 6 July, 2009, we received 459 replies, which mean a response rate of 23%, 30 October, 2009 was considered as the cut-off date and no questionnaires were accepted after this date. This may be considered a good response rate according to Kroon et al. (2003) considering the sensitivity of the topic, the nature of the problem under investigation and the inhibitions that management might have regarding the survey and the number of respondents were repetitive of the population.

Inferential statistics

In this study the researchers want not only to describe the sample data such as means standard deviation and proportions but they wish to make inferences about the population based on what was observed in the sample. Inferential statistics allow researchers to make inferences concerning the true differences in the population (Tustin et al., 2005).

The dataset is further augmented by locations of panel households and grocery stores. These locations allow us to compute travel distances both from shoppers' homes to stores and between stores in order to assess the relationships between geographic variables and cherry picking. Therefore, the following null and alternative hypotheses can be formulated:

$$H_{01}: \mu_1 \neq \mu_2$$

$$H_{A1}: \mu_1 = \mu_2$$

The research findings of the research will be highlighted next.

RESEARCH RESULTS

The demographic profile presents an overview of the sample elements (owners) in terms of gender and age. The sample units (small businesses) are also described in terms of type of business (to observe whether certain type of businesses are more susceptible to failure), and number of years in operation

(to analyse whether years in operation influence the success rate of a small business), industry type (to observe whether certain industry type of businesses are more susceptible to failure), and ownership by population group (to observe whether race influence the failure rate).

Demographic profile

Access to demographic information of the survey population assists strategists in their decision-making responsibilities related to future small business skills development strategies. Demographic factors indicate that the older the owners, the less likely they are to leave the business and they are consequently more likely to be successful. Gender of respondents will also be looked at because in the overwhelming majority of countries, the rate of entrepreneurial activity among men is far higher than among women.

Gender of the respondents

The research wished to analyse the gender of the respondents and whether gender influences the managerial skills of business owners and thus the success rate of small businesses. In Figure 1 the results is shown.

As indicated in Figure 1 most of the respondents surveyed were male (73%) as compared to female respondents (27%). South Africa is no exception, with men being twice as likely as women to be new enterprise entrepreneurs and one and half time more likely to be owner managers of established firm. The Global Entrepreneurship Monitor (2002: 34) presents a possible explanation for this male-biased trend. According to this publication male owner/managers employ more workers in comparison with female owner/managers, who employ less.

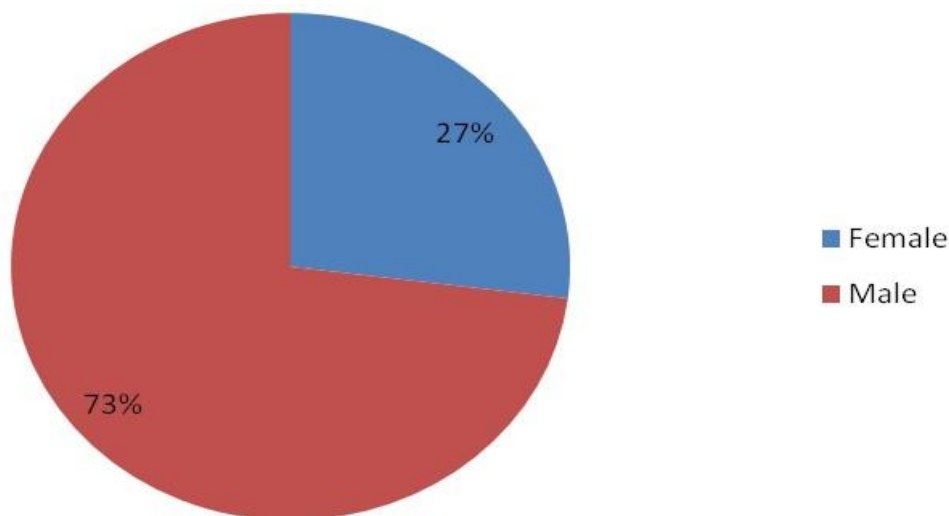


Figure 1. Gender of respondents.

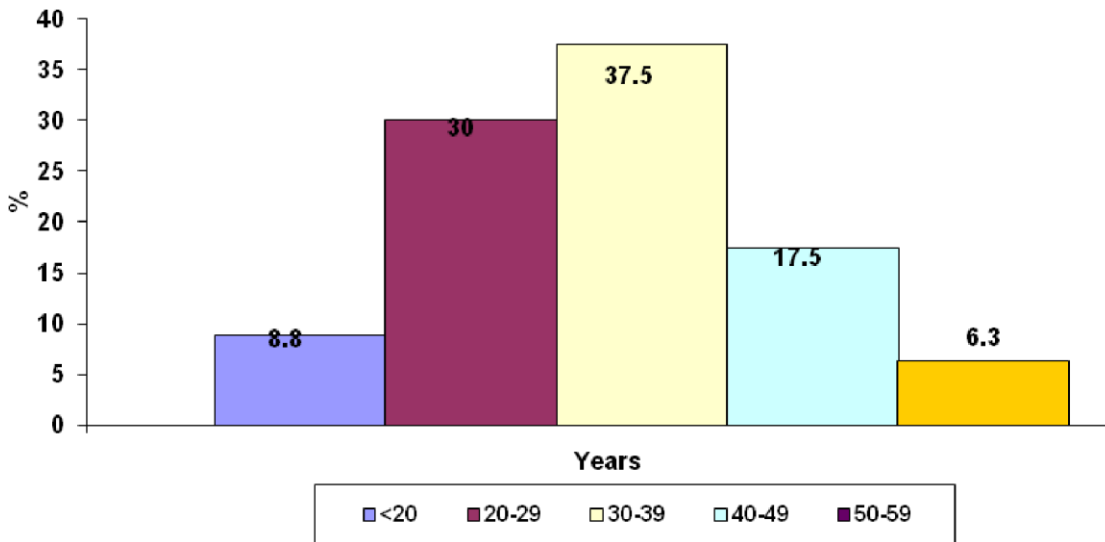


Figure 2. Age of respondents.

Age of the business and number of years in operation

The research tries to establish whether years in operation influenced the success rate of a small business. The age of a business reflects its market experience and affects its ability to grow and move to the next size class. Furthermore, market experience and size of a business are important valuables that determine a business's access to financial sources. The outcome of the survey finding is presented in Figure 3.

Figure 3 shows the number of years small businesses have been in operation. It is evident from the data that the businesses are generally fairly mature. According to Figure 3 most businesses (74.1%) operate for more than two years. Only a few MSEs (25.9%) operate between one month and two years. These findings reflect a relative high survival rate for the micro small business sector in the survey areas. This is an encouraging finding against the backdrop of the high unemployment rate in South Africa. However, Figure 3 also confirms the relatively high rate of establishment of new businesses. Almost one in every five (25.9%) small business has been in operation for less than one year. International experience has shown that births and deaths among small businesses tend to be concentrated among younger and smaller firms (Picot et al., 1995).

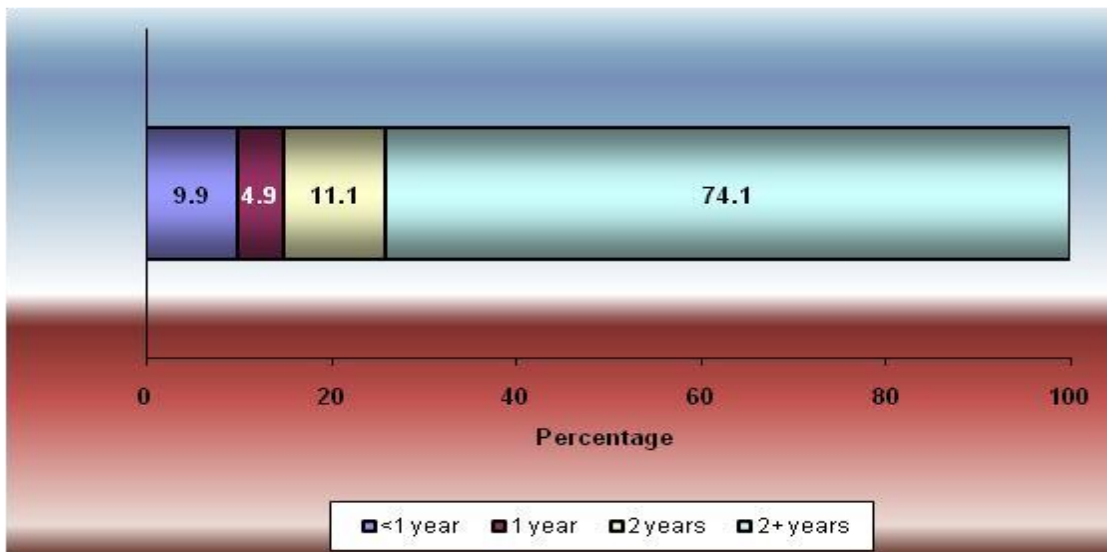


Figure 3. Number of years in operation.

Nature of industry

An additional variable investigated in the questionnaire is the nature of the industry in which participating small businesses operate. The aim was to observe whether certain industry type of businesses is more susceptible to failure. The outcome of the survey results is reflected in Figure 4.

Figure 4 indicates that 48.1% of the respondents operate in the retail industry. Of the total sample, approximately a third (30.4%) conducts business in the services industry. Only 7.4% of the survey population participated in the construction and manufacturing industries. The study observed that retailers had the largest chance to fail due to easy access to this sector. Previous studies confirmed that small businesses in the retail sector have a higher failure rate as a result of the ease of entering this sector and the consequent possibility of overtrading.

Marketing and managerial skills

Marketing skills as indicated in the literature review is the ability to see past firm's offerings and their features, to be able to see how they satisfy the customer's needs and why the customer finds them attractive and this will indicate the success of the ethic entrepreneur (Picot et al., 1995). A managerial skill is simply knowledge that is demonstrated by action. It is the ability to manage a small business. In South Africa the managerial empowerment of previously disadvantaged people happens through the system of education, mentor - and internship. The acquisition of managerial skills through education and experience indicates that management is a science, a profession and an art. Management education is very important to the South African economy. The crisis in education and training in South Africa poses many challenges for management training. Today's management training emphasizes that management is about communication, and interpersonal skills. Examples of managerial skills are the

following: managing personal stress, managing time, performance appraisal, motivating people, managing conflict, solving problems, marketing, bookkeeping, record keeping, writing business plans and pricing. This question was structured to obtain information on the extent to which entrepreneurs use behavioural skills during their workdays to be successful entrepreneurs. Figure 5 presents the outcome of the survey finding. Figure 5 indicates that motivating workers occupies most (100 percent) of an owner's time.

Besides this function, managing time and solving problems are more frequently attended to when compared to the other business functional area? Nearly 79% of the respondents are constantly involved in marketing activities. The rest of the respondents never or hardly ever market their business, or do not know what marketing is. These business owners should be assisted in acquiring knowledge about marketing. 90% of the respondents are constantly involved in bookkeeping activities and 91% of daily record their business transactions. A disturbing 54% of the respondents never wrote a business plan, or does not know how. Verbally, most of these respondents indicated that they did not really know how. However, this is an important activity since without this it is hardly possible to obtain finance from the banks. About 87% of the entrepreneurs constantly devote time to the pricing of products and services. The rest of these small business owners never do price themselves, but indicated verbally that they invite outside help with this function.

From the generally positive results expressed by the respondents that are reflected in Figure 5, one can safely conclude that most business owners have a high regard for managerial skills and what they mean for the success of their businesses, although some are unfamiliar with the demands of these skills for a lack of training. Although the respondents find all the managerial skills listed in the table as important in their day-to-day work, it is obvious that writing business plans is the least favourite activity, most likely because of unfamiliarity. All the managerial skills mentioned in Figure 5 are important and should be attended to if a business were to succeed.

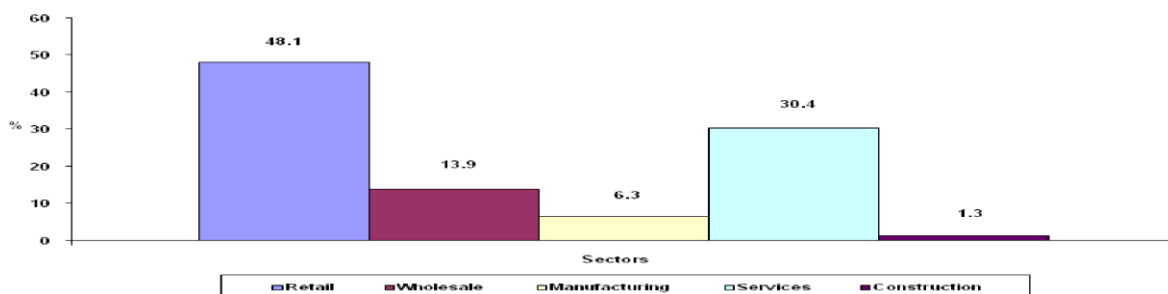


Figure 4. Nature of industry.

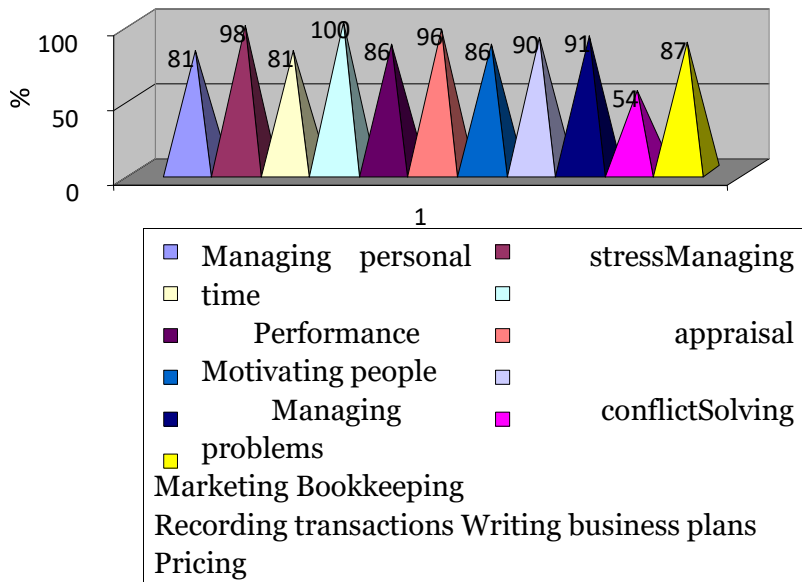


Figure 6. Problems experienced by respondents.

Problems experienced by small business owners

The research analyzed that the respondents faced the following problems, namely: crime, economic factors, finance, labour and rent. The outcome of the survey finding is presented in Figure 6.

According to Figure 6, crime is perceived the most significant (43%) factor of all problems faced by South African small business owners. At least two out of five enterprises are affected by crime. Some respondents indicated in the comments section that formal businesses with premises away from home and those that hold stock are at greater risk, since this makes them more vulnerable to crime such as burglaries outside business hours. Some respondents also mentioned „off the record“ that crime is a widespread problem in the black townships and imposes an additional premium on running a business there and that this (crime) acts as an incentive to relocate elsewhere, out of the black townships.

As indicated in Figure 6 more than a third of the respondents (35.5%) perceive economic trends as an external factor causing problems for the business. Small businesses cannot control this external environment that harms them. Only 17.7% of the respondent's regard finance as the problem. About 2.5% of the respondents indicated that they experience problems with employees. Only 1.3% complained about the rent they pay. Respondents tend to be more in agreement with the statement that variables, such as crime and economic factors, would negatively impact on the success of their businesses. It can be deduced that conceptual know-how of the functioning of the macroeconomic environment allows better insight into the impact of exogenous factors on the functioning of businesses within a particular macroeconomic setting.

H1 = There is a correlation between problems experienced by ethnic SME owners and their marketing and managerial skills. To achieve the objectives of the study, tailed. When conducting the z-test, Ho1

was rejected thus accepting HA1. Therefore, by accepting HA1, one may conclude that there is a There is a correlation between problems experienced by ethnic SME owners and their marketing and managerial skills.

It is evident from the study that business owners lack certain managerial skills such as financial, marketing, and human skills to operate their businesses successfully. The research findings confirm that small business owners are in need of support services such as training, counselling, and financial assistance. It is equally evident that small businesses are constrained not only by financial factors but also specifically by non-financial factors such as lack of education, inadequate technical skills, poor access to markets, lack of information and unreliable infrastructure. The analysis also indicates that the managerial skills that the respondents possess, and those that they preferably should have, do not correlate.

The study analysed that the respondents lack the following key managerial skills: financial skills – record keeping, financial planning/budgeting, cash flow and credit management and marketing. The picture emerging from the research analysis depicts a continuum of small businesses ranging from fairly sophisticated businesses operations in the formal market to businesses lacking formality in terms of, for example, labour legislation, business premises and accounting procedures.

$$H_{01}: \mu_1 \neq \mu_2$$

$$H_{A1}: \mu_1 = \mu_2$$

The response of the hypothesis is shown in Table 1. Table 1 shows that the Pearson correlation indicates a perfect correlation of 1 at a significant level of 0.05 2-

Table 1. The Pearson correlation.

		Problems experienced by ethnic SME owners	Total: marketing and managerial skills
Problems experienced by ethnic SME owners	Pearson	1	0.073
	Correlation	.	0.448
	Sig. (2-tailed)		
	N	157	156
Total: marketing and managerial skills	Pearson	0.073	1
	Correlation	0.448	.
	Sig. (2-tailed)		
	N	157	156

RECOMMENDATIONS

The researchers acknowledge government's involvement in managerial training which focuses on basic literacy, numeracy and communication skills with a developmental rather than a business focus. Training should also focus

on administration, financial management, and marketing skills. Training should be more of a practical nature; less formal and classroom-based, and should include followup practical courses. Ethnic entrepreneurs would then also be more equipped to make better-informed decisions, and to steer their business away from known pitfalls.

The research analysed that there is a correlation between problems experienced by ethnic SME owners and their marketing and managerial skills. Improving the managerial skills of small business owners will solve unemployment problems and a stagnating economy.

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