PERFORMANCE OF YOUTH-OWNED BUSINESSES

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Abstract

Youth entrepreneurship is one of the solutions for unemployment. Previous studies focused to some extent on the support of youth entrepreneurship. The purpose of this paper was to analyse the profitability of youth-owned businesses. This paper was aimed at making a scientific contribution to research studies by Radipere and Ladzani (2014) and Hallak et al. (2014) by analysing the profitability of youth-owned businesses, using a theoretical framework of profitability. A quantitative approach was followed to achieve the research objectives. Data were analysed using the Statistical Package for the Social Sciences (SPSS) to compile descriptive statistics. The research results show an increase in profits attained by the youth-owned businesses surveyed. Moreover, the results indicate that youth-owned businesses recorded business growth from sales. Sales growth is an essential parameter for the survival and financial growth of a business. Good sales growth in a business can always be used for the benefit of the employees and the business in terms of providing salary raises, acquiring new assets, and expanding the business or the product line. Recommendations are made for young people who have undertaken new entrepreneurial ventures, business consultants, and other stakeholders in youth entrepreneurship, and future research directions are outlined.

Keywords: Entrepreneurship, Limpopo, Performance, Youth Businesses

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1. INTRODUCTION

Youth entrepreneurship is viewed as an essential instrument for improving the small pace of business establishment and employment among young people around the globe (Turton & Herrington, 2012; Bowmaker-Falconer & Herrington, 2020; Zwane et al., 2021). An agreement is not reached so far about the entrepreneurship definition (Landström et al., 2012; Nieman & Nieuwenhuizen, 2019). However, the most common words used by specialists describing entrepreneurship include "innovation" and the "driving forces of development" (Nieman & Nieuwenhuizen, 2019). Entrepreneurship is defined as a series of actions of making and building something of value from practically nothing amid unsureness and risk and possessing the decisiveness to prosper against all chances (Erasmus et al., 2019). Van Aardt (2013) refers to entrepreneurship as a series of actions whereby people follow lucky chances disregarding the resources they manage. Moreover, entrepreneurship refers to a series of actions that bring changes through the innovation of people in the economic system to respond to opportunities available in the market (Nieman & Nieuwenhuizen, 2019). The Global Entrepreneurship Monitor (GEM) (Herrington & Kew, 2018; Bowmaker-Falconer & Meyer, 2022) datasets give numbers on nascent, new and created expectations of entrepreneurs concerning making jobs available to individuals aged 18–35 years.

The entrepreneurship notion is multifaceted and directed to an individual who endlessly concentrates on available gaps in the market, either in a new enterprise or operating business, for the sake of building value, whilst taking up both the chance and benefit for his or her efforts (Longenecker et al., 2017). Bosma et al. (2021) refer to an entrepreneur as someone who has the passion to solve a problem or to bring a new idea to market. Entrepreneurship differs from self-employment. Self-employment is regarded as the state of being self-employed, where one earns one's main income directly from one's work such as owning a business (Gindling & Newhouse, 2014). Therefore, an entrepreneur organises and operates a business while a self-employer works for him- or herself rather than for an employer. In this study, the focus is on youth entrepreneurship. Youth refers to a person who is 18 years old and above, but not more than 35 years of age (Makoae et al., 2021).

Since the business environment changes rapidly (Erasmus et al., 2019), youth entrepreneurs are needed to engage businesses that are commensurate with businesses worldwide. Turton and Herrington (2012) state that the early-stage entrepreneurial activity rate for South Africa's youth is 7%, the lowest of 10 sub-Saharan African countries investigated, and far below the 10-country average of 29%. However, Herrington and Kew (2018) point out that the downward trend in entrepreneurial activity in South Africa in the age group 25–34 years was reversed from a low 6.3% in 2016 to 14.5% in 2017, and entrepreneurial activity in the age group 35–44 years increased from 8.4% in 2016 to 13.5% in 2017. Moreover, Bowmaker-Falconer and Meyer (2022) discovered that in entrepreneurial activity of the early stage, the adults' percentage (35 years and above) who started or operated a new business, increased to 17.5%. This means that despite the importance of youth entrepreneurs in job creation for themselves and others, the older age groups still dominate business creation. This pressurises youth-owned enterprises.

The closure of small businesses is higher at 6.2% for young people (Kelley et al., 2022). The discontinuation of small businesses can be attributed to their inability to achieve profitability (Gandy, 2015; Bushe, 2019). Robinson (2017) supports the notion that profitability is a challenge for many small businesses, given that more than 50% of new businesses fail within the first 5 years. Although some SMEs achieve profitability, 62% of them have weak profitability (Rotich, 2018). Gandy's (2015) study found that profitability is one of the most used measures of success by small business owners. It is often challenging to assess small businesses' performance, particularly when performance indicators are not openly accessible. In most cases, owners of business enterprises are not willing to make their profit information known to the second or third person. This makes the gathering of financial data such as net profit and sales revenue always results in an item called "nonresponse" during the study (Radipere & Ladzani, 2014; Hallak et al., 2014). Therefore, there is a need to find out whether youth-owned businesses make a profit or not. The main aim of all enterprises is to make a profit. Therefore, the unavailability of profit would mean that an enterprise will not remain operational in the future. This means that that business might close its operations.

Business discontinuation is a problem because youths might add to the huge unemployment rate in South Africa, which for youths is as high as 58.2% (Bosma et al., 2019). Therefore, it is essential to analyse the profitability of youth-owned businesses, as was done in this study in the province of Limpopo, South Africa. Amoros and Bosma (2014), in the GEM research project, stress that, given the problems related to starting a new enterprise, the majority of emerging businesses do not survive past the first few months. Furthermore, not all nascent entrepreneurs move to the next level. Budding entrepreneurs are defined as those entrepreneurs who remain with their enterprises for over three but less than 42 months. By contrast, established enterprises are those entrepreneurs who have been in operation for over three-and-half years.

The structure of this paper is as follows. Section 2 reviews the relevant literature. Section 3 analyses the methodology that has been used to conduct empirical research on the performance of youth-owned businesses. In Section 4, the results of this paper are presented followed by a discussion of the results in Section 5. Lastly, the conclusion relevant to this paper is made in Section 6.

2. LITERATURE REVIEW

In this section, previous studies are reviewed to illustrate the gap filled by this research. The section starts with the theoretical background, followed by a discussion of youth business performance and a review of previous studies on entrepreneurial support.

2.1. Theoretical background

Profitability is the capability of an enterprise to acquire a profit (Chong et al., 2020). A profit is commonly the income remaining after a business has settled entire expenditures correlated to the activities of the business (Erasmus et al., 2019). Profitability is defined as the circumstance where a business, a product, or the like is making a profit (Longenecker et al., 2017).

A theoretical framework of profitability, as suggested by Chong et al. (2020), was used to provide a theoretical grounding for the paper. This framework suggests that profitability is a measure of the success of an enterprise. Moreover, profitability leads to business capital growth and effectiveness.

There has to be a benchmark to measure success. Dissimilar aspects are applied to rate the success of small businesses. These dimensions include, among other things, profitability and the age that these businesses have been in existence (Moreno & Casillas, 2007). Alasadi and Abdelrahim's (2007) study asserted that the absence of a generally recognized baseline leaves the door open for enterprises to make a decision, and select, their own performance measures, which might not be a true reflection of their performance. There are three measures of performance for enterprises that were in existence for less than eight years. These measures are adjusted industry-controlled, profit growth average, and rate of relative employment growth (Baron & Tang, 2007, as cited in Swanepoel, 2008). The second performance measure recommended by Baron and Tang (2007) (as cited in Swanepoel, 2008), was adopted in this paper.

2.2. Youth business performance

Youth business performance is measured in accordance with the performance of enterprise organisations owned by youth aged 18–35 years and that are involved in the business organisation including the trading of products to customers for the purpose of profit-making (Ndinda, 2013). Swanepoel (2008) and Rachidi (2014) in South Africa, Ling et al. (2009) in Malaysia, and Ndinda (2013) in Kenya conducted studies on youth business performance. Swanepoel's (2008) study could not determine the cause of anomalies in fixed profit and turnover data over the period of four years. Most respondents in the study had employed less than five personnel, which was meaningless concerning employment as a benchmark for performance. In his study, Rachidi (2014) discovered that small businesses owned by young people were small providing jobs for less than five people on average. Ndinda (2013) discovered that the performance of young people's enterprises was unable to improve as anticipated. Ling et al. (2009), in their study, revealed that slightly more than two-thirds of small businesses (66.9%) remained in the stage of development, regardless of the innovation and creativity displayed by young people. Lorizio and Gurrieri (2016) asserted that there was an interconnection between the performance of business and innovation reliant on functions of production which involves the investment in research and development among the inputs.

2.3. Previous studies on entrepreneurial support

A supportive environment refers to an external environment that is conducive to the entry of entrepreneurs and encompasses, for example, infrastructure and a broad scope of enterprise development services, namely networks, role models, mentorship, training, financing, and legislation (Nieman & Nieuwenhuizen, 2019). Ladzani and Van Vuuren's (2002) study observed that training in entrepreneurship needs to be viewed as one of the key requirements to start as well as run an enterprise.

The South African Department of Trade and Industry (DTI) (2008), in its yearly business review in the country over the period 2005–2007, identified support agencies and institutions for small, medium, and micro-enterprises (SMMEs) in South Africa. It follows that SMME support agencies are available. Moreover, in Limpopo, the Limpopo Department of Economic Development, Environment and Tourism (LEDET) is accountable to ensure that provincial SMME support policies are carried out. One of the pillars of the Department's role is the integration and coordination of the services of support, namely the Trade and Investment Limpopo (TIL), Limpopo Business Support Agency (LIBSA), the Limpopo Economic Development Enterprise (LimDev) and the Limpopo Tourism and Parks Board (LTP) (Mbedzi, 2011). However, most of the programmes that are aimed to support SMMEs were regarded as repetition, and not aligned with what government wishes to offer (Urban-Econ Development Economists, 2019). Nonetheless, Rogerson's (2004) study discovered many businesses that were growing make use of programmes offered by the government as compared with businesses that are not growing which do not utilise government support programmes.

Mbedzi (2011) evaluated the support provided to SMMEs in Limpopo. Out of the assessment, it appeared that of "16 municipalities", only 6 had definitely the strategy that support small businesses in the Capricorn District Municipality (CDM), and only 1 municipality, namely, Lepelle-Nkumpi had a clear SMME support strategy. However, Bosma et al. (2019) note that the government of South Africa continuously confirms the essentials of entrepreneurs and business enterprises with the aim of sustaining and growing the economy and implementing a policy series of reforms to promote the aim in question. These reforms include:

1) making funds accessible via centres of the state, with a dedication to fundamentally improve fund timeously;
2) introducing well-known guidelines to apply for funds all over financial institutions in South Africa;
3) establishing an innovation fund for a small business, which would offer a blended finance model in the combination of loans and grants with a varied of financial tools with the purpose of reducing the finance costs for entrepreneurs;
4) making provision for the funding of partner organisations (incubators) under certain conditions.

The aim of the paper reported here was to make a scientific contribution by analysing the profitability of youth businesses.

The primary objective of the paper was to analyse the profitability of youth-owned businesses. The secondary objective was to determine the profitability of youth-owned businesses in Limpopo, South Africa.

Suggestions are made to assist young people who are owners of business enterprises in understanding the specific profitability and performance of their businesses, and actions are recommended on how to improve youth-owned businesses. Individuals who are considering undertaking new entrepreneurial ventures will benefit from the information shared in this paper. Other stakeholders will benefit from reading this paper before they engage with youth-owned businesses. Moreover, this paper can be used by business consultants to advise emerging youth entrepreneurs before they start businesses. The paper further makes a significant contribution to the theoretical framework of profitability by analysing the profitability of youth-owned businesses in a developing country (in this case, South Africa).

3. RESEARCH METHODOLOGY

The respondents for this paper were 26 youth entrepreneurship business units in the CDM, Limpopo, South Africa. It was challenging to get a greater number of interviewees standing for the business units, hence the small accomplished sample size for this paper. A total of 83 youth-owned businesses were targeted based on the two databases provided by the Limpopo Economic Development Agency (LEDA). However, quite a lot of the enterprises were replicated on the two lists. It was doable to gather data from all 26 youth entrepreneurship business units; this is termed a census. A quantitative research approach was used to achieve the research objective.

A structured questionnaire was utilised in this paper to gather primary data from the youth entrepreneurs in the CDM. The data obtained from the structured questionnaire were utilised to establish the profitability of youth-owned businesses. A five-point Likert scale was utilised in the questionnaire. The factors in the questionnaire were grouped into the number of employees, age of the business, business turnover, profit per annum, and business success. These factors were aimed at determining the profitability of youth-owned businesses.

The coded data were captured electronically by computer, utilising the Statistical Package for the Social Sciences (SPSS) to compile descriptive statistics. Because of the restricted number of respondents (only 26), it was not doable to administer a meaningful statistical analysis to test the hypotheses that had been formulated, and they were therefore discarded. In addition, the regression model was not used.

4. RESULTS

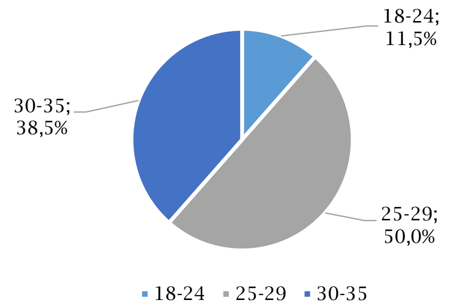
4.1. Reliability and validity

The reliability coefficient (Cronbach's alpha) for the items measured in the questionnaire could have fallen below the prescribed value of 0.70 for an acceptable reliability coefficient since the coefficient could have been influenced downwards by the relatively small sample. The questionnaire for this paper was designed based on validated questionnaires used by Schoof (2006), Swanepoel (2008), and Radipere (2014) in entrepreneurship research. In addition, it was reviewed by the supervisors, the departmental colloquium committee, and the ethics clearance committee of the University of South Africa, where the researcher is based. The questionnaire was easy to understand.

4.2. Age distribution of respondents

Half of the respondents were between the ages of 25 and 29 years, while 11.5% of them were even younger — between 18 and 24 years (Figure 1). A further 38.5% of the respondents were between the ages of 30 and 35 years. All the respondents complied with the criteria since the age of youth is defined as between 18 and 35 years.

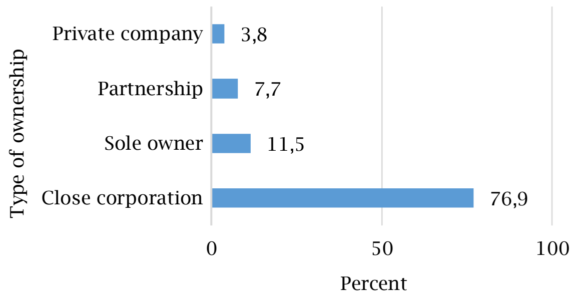
Figure 1. Distribution of respondents by age group (n = 26)



4.3. Type of ownership

In the questionnaire, the participants were asked to show the kind of ownership of their businesses. The findings depicted in Figure 2 indicate that about 76.99% of businesses owned by young people surveyed were close corporations, followed by sole traders with 11.5% and partnerships with 7.7%. Only 3.8% of the surveyed businesses were private companies.

Figure 2. Distribution of businesses by type of ownership (n = 26)

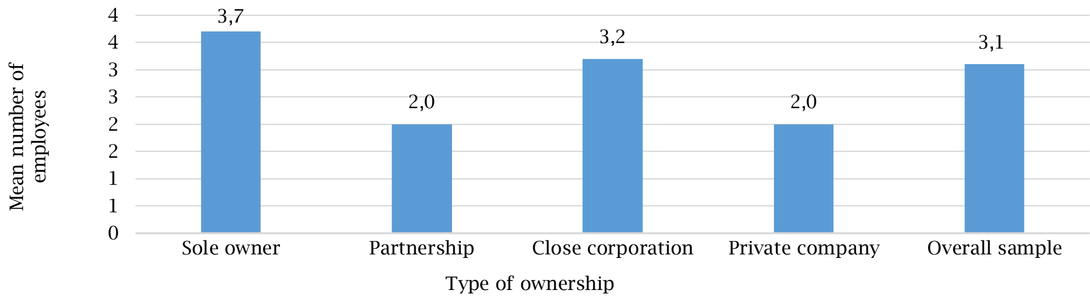


Most of the businesses were close corporations, the reason that several of the small businesses were registered before May 1, 2011. A close corporation is a legal entity that has one to ten members (Nieman & Nieuwenhuizen, 2019). The name of the enterprise must end with "CC". The members are responsible for supplying the capital and managing the enterprise. The Act made provision for close corporations to change to private companies, with no cost involved. Nevertheless, the operating enterprises could proceed to operate as close corporations (Republic of South Africa, 2009). Sole traders, at 11.5%, represented the second-highest number of small businesses surveyed in the study since youth businesses are usually small businesses owned by one owner. This form of business is simple and easy to start. Partnerships were the third most prevalent form of ownership. This form of ownership includes solely a few law conditions, namely acquiring an operating licence. Only 3.8% of the small businesses were recorded as private companies. This form of ownership coincides with many legal requirements and a great degree of formalisation. The money required to register the business as a private company and the time it takes to register (Companies Act 71 of 2008) are prohibitive factors. The aim of the Companies Act 71 of 2008 is to offer for the registration, incorporation, organisation, and management of companies, the profit capitalisation of companies, and the official registration of foreign companies operating on business in South Africa.

4.4. Number of employees by type of ownership

The respondents were requested in the questionnaire to show the number of employees in their business. Their answers to this question are depicted in Figure 3.

Figure 3. Number of employees by type of ownership (n = 26)

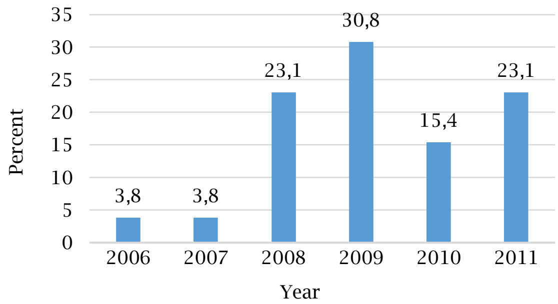


It is apparent from Figure 3 that the 26 youth-owned businesses surveyed had an overall average number of 3.1 employees. Sole ownerships had the greatest mean number of employees at 3.7, whereas private companies and partnerships had the smallest mean manpower of 2.0. According to the categorisation lay out in the National Small Business Act of 1996, these businesses are therefore categorised as micro-businesses, which typically hire less than five employees. This tendency is the same as that indicated by Swanepoel (2008) and Rachidi (2014), who found that youth-owned enterprises hired less than five employees. This means that youth-owned businesses have a small influence on poverty reduction in rural areas.

4.5. Year business started operating

The participants were requested in the questionnaire to show the year in which their enterprise commenced running. This question was requested aimed at ascertaining the age of the businesses and the appropriate accumulated knowledge. Only enterprises that were 3 years and older were involved in this paper for the reason that has been operational for 3 years or longer was considered an indication of business success. The study was conducted in 2013.

Figure 4. Age distribution of businesses (n = 26)

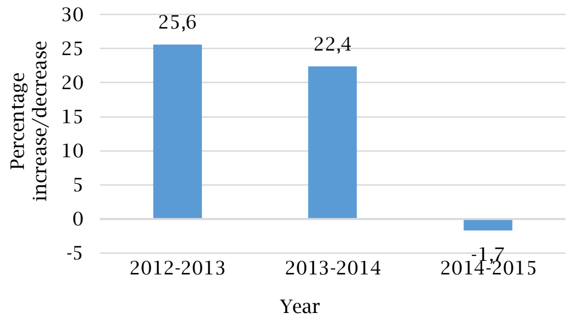


The ages of the businesses ranged between 4 and 9 years (Figure 4). All the businesses had been in operation for at least four years. Therefore, they could be classified as established businesses in accordance with the GEM's meaning of well-established enterprises (Amoros & Bosma, 2014). These businesses were surveyed because the owners had paid wages for more than 3.5 years.

4.6. Number of employees by year

The respondents were requested to show the number of employees in their business year on year. The aim of the question was to establish whether or not the enterprises were growing. The findings from this question are depicted in Figure 5.

Figure 5. Percentage growth in the number of employees (n = 26)

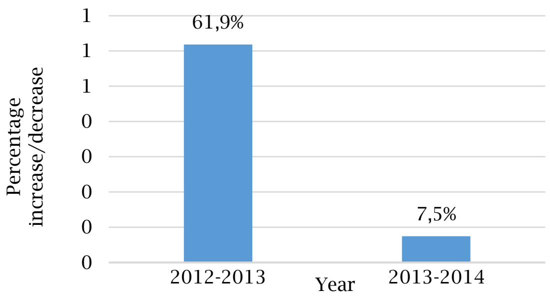


It can be followed from the findings in Figure 5 that the mean employees' number in the youth-owned enterprises surveyed recorded an increase of 25.6% from 2012 to 2013. This was followed by a 22.4% increase from 2013 to 2014. However, there was a decrease of 1.7% during the period 2014–2015. This decrease in the mean employees' number may be a consideration of a decrease in the economic growth level as far as the area is concerned.

4.7. Business turnover per year from 2012 to 2014

The respondents were requested to report on the annual turnover their businesses achieved, with special reference to 2012, 2013, and 2014. The aim of this query, as in the event of the number of employees, was to determine growth in the enterprises. The findings from this question are depicted in Figure 6.

Figure 6. Distribution of respondents by business turnover and year, 2012–2014 (n = 26)

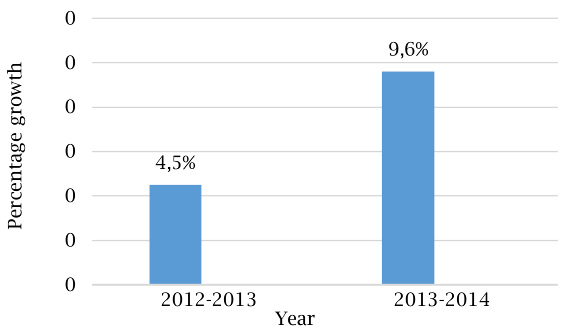


From the results in Figure 6, it is evident that the youth-owned businesses surveyed experienced 61.9% growth in business turnover from sales from 2012 to 2013, followed by growth of only 7.5% from 2013 to 2014. This result signifies convinced performance concerning business turnover among these enterprises. This finding is not similar to that of Ndinda (2013), namely, that the performance of youth businesses was not able to improve as anticipated.

4.8. Profit per annum

The respondents were requested to report on the percentage of turnover that made up their gain for the enterprises. The aim of this query was to find out if there had been increase in profits among the businesses studied. The findings are depicted in Figure 7.

Figure 7. Profit, 2012–2014 (n = 26)



It is clear that there was an increase in profits of 4.5% from 2012 to 2013, followed by an increase in profits of 9.6% from 2013 to 2014. These numbers show convinced increase in profits achieved by the businesses studied. Although the results show positive growth in profits, the respondents were not satisfied with the profits achieved (refer to sub-section 4.9 of this paper). This finding is similar to that of Rotich (2018), namely, that the profitability of 62% of the SMEs surveyed was weak. The reason could be excessive operating costs, not having enough revenue. Moreover, reason could be ineffective marketing and poor products prices. This might have negative impact on financial welfare of people attached to the business.

4.9. Business success

According to a five-point Likert scale, the respondents were requested to show the degree to which they agreed or disagreed (ranging from "strongly disagree" to "strongly agree") with the statements associating to performance of business. The findings are set out in Table 1.

Table 1. Performance of youth-owned businesses (n = 26)

Item	*Frequency*	*Strongly disagree*	*Disagree*	*Unsure*	*Agree*	*Strongly agree*	*Total*
I am satisfied with the profitability of the business.	26	11.5%	61.5%	0%	26.9%	0%	100%
I am satisfied with the sales growth of the business in the last three years.	26	11.5%	30.8%	0%	50%	7.7%	100%
I am satisfied with the performance of the business.	26	3.8%	26.9%	0%	61.5%	7.7%	100%
I am satisfied with the overall performance of the business.	26	7.7%	30.8%	0%	53.8%	7.7%	100%

The findings in Table 1 disclose that the respondents were convinced concerning about the performance of their business, with the exclusion of *"I am satisfied with the profitability of the business"*, where 16 respondents (61.5%) disagreed, 3 (11.5%) strongly disagreed and only 7 (26.9%) agreed. This implies that the respondents did not achieve profitability as anticipated. This finding is similar to that of Ndinda (2013), namely, that youth businesses did not achieve the performance they would have wished to achieve. In all other respects, the majority of the respondents (around 50 to 60%) claimed to be satisfied with the performance of their business.

5. DISCUSSION

The paper indicates that 50% of youth entrepreneurs are between the ages of 25 and 29 years. The entrepreneurs in the age group 26 to 29 years are considered to be emergent entrepreneurs who are more likely to operate feasible businesses as compared to younger persons because of their maturity.

According to the results of the paper, youth-owned businesses recorded business growth of about 61.9% from sales. This is an indication of positive business performance. However, the results disclose that youth-owned enterprises experienced negative performance concerning job creation in the CDM region, with businesses hiring less than 5 employees. A high-growth enterprise means a business that has average annualised growth higher than 20% per year over a period of three years and that has 10 or more staff at the starting of the measuring period (Organisation for Economic Co-operation and Development [OECD], 2012). This means that youth-owned businesses are growing but not making drastic changes in respect of job creation. Moreover, the results show an increase in the profitability of youth-owned businesses. Profitability is essential to find out the success or failure of a business. This means that, generally, youth-owned businesses in Limpopo, South Africa, are successful.

6. CONCLUSION

The research results show an increase in profits attained by the youth-owned businesses surveyed. Moreover, the results indicate that youth-owned businesses recorded business growth from sales. Sales growth is an essential parameter for the survival and financial growth of a business. Good sales growth in a business can always be used for the benefit of the employees and the business in terms of providing salary raises, acquiring new assets and expanding the business or the product line.

Growth in the business turnover and profitability of youth-owned businesses discovered in this paper does not make a drastic impact on job creation in the CDM region of Limpopo, South Africa. Therefore, it is recommended that a youth business forum be established and that the forum include all stakeholders (i.e., young entrepreneurs, the National Youth Development Agency and the government). Such a forum should help the South African government to achieve sustainable and inclusive economic growth. A series of policy reforms should be implemented urgently to support this goal. Furthermore, the government should identify well-established young entrepreneurs who can mentor and coach less-experienced young entrepreneurs in Limpopo, for the purpose of developing their skillset and help young people in running their businesses with confidence. Such mentoring will also help young entrepreneurs to focus on investment to ensure that their businesses perform well.

Lastly, it is recommended that future study research the financial literacy of young entrepreneurs. Moreover, a future study should explicitly define the appropriate support needed by youth-owned enterprises in South Africa and other countries.

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