

ENTREPRENEURIAL SELF-EFFICACY AND PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN SOUTH AFRICA

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ABSTRACT

Small and medium enterprises (SMEs) play an important role in the economy as they contribute to job creation, poverty alleviation, innovation, economic growth and development. However, SMEs suffer from a high failure rate. One of the solutions to business failure is entrepreneurs' level of self-efficacy towards normal and challenging business activities, which consequently leads to sustainable performance. This study investigated the relationship between Entrepreneurial Self-Efficacy (ESE) and social and environmental performance of SMEs. The Cronbach's alpha was applied to measure reliability. The results of regression analysis revealed a significant positive relationship between ESE and social and environmental performance. Recommendations to improve the ESE of SMEs are suggested.

Keywords: Entrepreneurial Self-Efficacy, SMEs, Environmental Performance, Social Performance.

INTRODUCTION

Small and Medium Enterprises (SMEs) play a vital role in fostering economic growth and development in both developing and developed countries. SMEs contribute to employment, innovation and the achievement of growth and long term sustainability of economies (Ayyagari et al., 2016). In advanced countries such as the United States of America (USA) and the United Kingdom, more than 99% of their businesses are SMEs. The contribution of the SME sector is one of the reasons for the low unemployment rates and high economic growth rates in many developed countries (World Bank, 2018). The number of SMEs in South Africa grew by 4.4% and number of employees in the sector increased by 29% between 2018 and 2019 indicating a big shift in employment from large to small enterprises. Despite the growth in the number of SMEs and their significant contribution to employment, the sector is negatively affected by South Africa's difficult economic situation. In addition, the failure rate of SMEs is very high in South Africa. The challenges faced by SMEs in South Africa include access to finance, access to markets and a highly competitive business environment (Small Enterprise Development Agency, 2019; SME Landscape Report, 2019).

One of the reasons for the high failure rates of SMEs is the low level of entrepreneurial self-efficacy (ESE) (Shaheen & AL-Haddad, 2018). Newman et al. (2019) opine that an important determinant of business success is how entrepreneurs think and act. ESE is related to self-confidence and entrepreneurial thinking and these factors have positive effects on entrepreneurial behaviour and performance (Obschonka et al. 2017). The personal characteristics of an entrepreneur are an important factor in personal achievement and entrepreneurial success (Byrne & Shepherd, 2013). According to the Social Cognitive theory by Bandura (1991), self-efficacy relates to the belief by an individual of the ability to achieve certain goals. ESE applies self-efficacy in entrepreneurial research and describes the level of

confidence of an entrepreneur about his/her entrepreneurial skills to perform various tasks (Chen, 1998). Wei et al. (2020) point out that ESE is a personal characteristic of an entrepreneur and depicts the ability to overcome difficulties and achieve business success. In addition, the measure of performance has extended beyond financial indicators to also include social and environmental indicators as indicated by the Triple Bottom Line (TBL) or Sustainable Performance (SP) Approach (Elkington, 1998; Thiel, 2015). Sustainable performance refers to the creation of practices and strategies that contribute to sustainable development by endorsing financial, social and environmental indicators (Bansal & DesJardine, 2014). The aim of this study is to investigate the relationship between ESE and social and environmental performance of SMEs. The findings of the study will be useful to SME owners to better understand how the personal characteristics of the entrepreneur can affect sustainable performance.

LITERATURE REVIEW

Self-efficacy, ESE and Sustainable Performance

Self-efficacy refers to one's beliefs in their ability to perform a certain task in a particular field. Bandura (1997) defines self-efficacy as individuals' conscious beliefs about their abilities to mobilise motivation, cognitive resources and action that is needed to successfully accomplish tasks within a given framework. An individual's level of self-efficacy can be developed through performance achievements, experiences, verbal encouragement and physiological conditions (Bandura, 1977; Bandura 1989). Self-efficacy has been stretched to entrepreneurial self-efficacy (ESE), which is about an individual's beliefs in his ability to see business challenges, accept them and find solutions in order to accomplish anticipated business goals. ESE is considered to be a vital characteristic that identifies an individual's capability to become an entrepreneur and foresee entrepreneurial behaviour in complex and risky conditions (Pihie & Bagheri 2010; Shane 2012; Sadriwala & Khan, 2018). McGee et al (2009) define ESE as a belief in one's abilities to perform different tasks involved in entrepreneurship. Self-efficacy plays a key and role in entrepreneurship because it influences decisions and activities of the owner in the organisation (Watson, 2012). Sustainable performance is measured by three elements which are financial performance, environmental performance and social performance (Jiang et al., 2018). These three elements are known as the triple bottom line of sustainability which was developed by John Elkington (1994). Sustainable development is in line with economic prosperity, environmental quality and social quality. For an organisation to be sustainable, it must be financially secured, follow the traditions of the society, and lessen negative influences on the environment (Hourneaux et al., 2018).

Self-Efficacy Theory

According to Bandura (1977), self-efficacy is associated with human functioning through individuals' beliefs, knowledge and confidence in their abilities to have an effect on the environment and be successful by portraying their behaviours. The theory of Alfred Bandura denotes that self-efficacy is about people's assessment of their capabilities to overcome challenges and have a belief that the activities and tasks will be successful in future (Bandura, 1986). Entrepreneurs with high self-efficacy create change in business productivity through their entrepreneurial competencies, skills and knowledge. Bandura argues that the outcomes individuals anticipate rely on their conclusions of what can be achieved. Individuals who notice their abilities in entrepreneurial achievement are more

likely to engage their behaviour in fields relating to business achievement (Bandura, 1983, 1986, 1999).

ESE and Environmental Performance

Alaraifi, Molla & Deng (2012) define environmental sustainability as using natural resources efficiently to meet the business needs without harming the needs of other organisations and stakeholders. The literature is inconclusive on the effect of ESE on environmental performance. Some studies find a significant relationship while others find a negative relationship. Prior empirical studies (Woo, 2014; Musa, 2016; García-Machado & Martínez-Ávila, 2019) found a significant relationship between ESE and environmental performance. The results indicated that ESE improves the level of confidence towards business activities and the level of understanding of environmental issues. Furthermore, entrepreneurs tend to have high confidence when applying green practices in the business and thus lead to low production costs, and enhances productivity competence.

However, Ghazilla, (2015) specified that most SMEs do not regard their activities as having a positive environmental impact as compared to larger businesses. This is because most SME owners lack ESE on environmental tasks because of limited or no environmental knowledge. It is hypothesised that:

H1 There is a significant positive relationship between ESE and the environmental performance of SMEs.

ESE and Social Performance

The social performance is described as an element in which good and fair business practices are conducted for workers and the society at large (Goel, 2010). A study by Hopp and Sephan (2012) found that there is positive relationship between ESE and social performance. In the study, a high level of ESE results in an entrepreneur being actively involved in social cultures from the supportive social institutional environments such as community projects, education and religions. Kim, Lee, Lee, and Kim (2010) found that higher levels of ESE impact social performance positively as entrepreneurs with high confidence levels tend to portray good attitudes and behaviour towards employees, bringing in trust, commitment, honesty, interpersonal relationship towards employees and therefore gaining employee attraction. Furthermore, it encourages a good relationship with suppliers and promotes high service delivery. It is therefore hypothesised that:

H2 There is a significant positive relationship between ESE and the social performance of SMEs.

RESEARCH METHODOLOGY

The sample of the study consisted of SMEs in Polokwane Local Municipality, which is located in the centre of Limpopo Province. Managers and owners were able to take part in this study irrespective of race, ethnicity, gender and educational background. A quantitative method was used and self-administered questionnaires were distributed for the purpose of data collection. The questionnaire covered three sections which are made of demographic information, entrepreneurial self-efficacy measures and sustainable performance. On the questionnaire, the entrepreneurial self-efficacy section used a measure adopted from previous literature by McGee (2009), the sustainable performance section highlights constructs, which include environmental and social performance. The measures were adopted from the study by Masocha & Fatoki (2018) and Ahmel (2020). The measuring tools revealed high levels of reliability and validity. The five points Likert scale ranging from (1) strongly disagree (2)

disagree, (3) neutral, (4) agree and (5) strongly agree was used to measure ESE and environmental and social performance. The convenience and snowball sampling methods were used to identify the study participants because the researcher could not get a complete list of SMEs in Polokwane Municipality. Descriptive statistics, Pearson's Product Correlation coefficient and regression analysis was adopted for data analysis.

RESULTS

Response Rate and Biographical Details

Three hundred and twenty questionnaires were distributed, and only one hundred and eighty were returned. The response rate percentage of participants was 56.3%. 47.2% of the respondents were male while 52.8% were female. The majority of respondents were in the age group 31-40, followed by 20-30 age group, then 41-50 age group followed by those in 51-60 age group, then below 20 age group and the lowest rate of the respondents were above the age of 60.

Correlations					
	Variable	SD	ESE	Environmental Performance	Social Performance
ESE	4.062	0.103	1	-----	-----
EP	4.034	0.101	.524**	1	-----
SP	3.755	0.103	.553**	.503**	1

*P<0.001; **P<0.05
ESE – Entrepreneurial self-efficacy, EP – Environmental performance, SP- Social Performance, SD- Standard deviation

Table 1 shows the descriptive statistics using the scale means and the Pearson Correlation coefficient for each factor. ESE has the highest score with mean 4.062 and a standard deviation of 0.103, followed by environmental performance (mean 4.034; SD 0.101) and social performance with a mean of 3.755 and a standard deviation of 0.103. According to Neheh & Van Zyl (2017) a mean value below 3 is considered as low, 3-4 moderate and above 4 high. The results indicate a high level of ESE and environmental performance, and a moderate level of social performance. The results further show that there is a positive correlation ($r=0.524$, $p=0.00$) between ESE and environmental performance. In addition, there is a positive correlation ($r=0.553$, $p=0.00$) between ESE and social performance. Cronbach's alpha was used as a measure of reliability. Cronbach's alpha coefficients for ESE, environmental performance and social performance are 0.813, 0.832, and respectively 0.789, indicating the consistency of measures.

Model	Unstandardized Coefficients		Standardised Coefficients	T	Significance
	B	SE	Beta		
(Constant)	2.329	0.275		8.482	0.00
EP	0.107	0.067	0.62	6.247	0.00

N=180, R= 0.424, R square =0.180 , adjusted R square = 0.605 , significance <0.05, ESE – Entrepreneurial self-efficacy, EP – Environmental performance , SE- Standard error

Model	Unstandardised Coefficients		Standardised Coefficients	T	Significance
	B	SE	Beta		
Constant	2.315	0.321		7.203	0.00
SP	0.102	0.079	0.596	5.03	0.00

N=180, R=0.353, R square = 0.524, adjusted R square = 0.520 , significance <0.05, ESE – Entrepreneurial self-efficacy, SP- Social performance , SE - Standard error

The results of the regression model indicate that there is a significant positive relationship between ESE and environmental performance ($\beta = 0.620$, $p < 0.05$) and ESE and social performance ($\beta = 0.596$, $p < 0.05$). Hypothesis (H1) propose that there is a positive significant relationship between ESE and environmental performance. Grounded on the findings of the correlation and regression, the hypothesis is accepted. The second hypothesis (H1) proposed that there is a significant positive relationship between ESE and social performance. Based on the results of the correlation and regression, the hypothesis is accepted. Therefore, it can be concluded that there is a significant positive relationship between ESE and environmental performance, and ESE and social performance of SMEs in Polokwane Municipality.

DISCUSSION AND CONCLUSION

The Social Cognitive theory by Bandura (1991) describes self-efficacy as the belief by an individual of the ability to achieve certain goals. ESE applies self-efficacy in entrepreneurial research and describes the level of confidence of an entrepreneur about his/her entrepreneurial skills to perform various tasks (Chen, 1998). This study examined the relationship between ESE and EP and SP of SMEs in South Africa. The regression results revealed a significant positive relationship between ESE and environmental performance. These findings are consistent with the results of prior empirical studies. ESE can help improve the level of confidence towards business activities and environmental issues (Chinniah 2016; Sharma & Dayal, 2016). The study also found a positive significant relationship between ESE and social performance. These findings are consistent with prior empirical studies. Hopp and Sephan (2012) found that cultural norms and supportive social institutional environments have a positive relationship on ESE. Carter, Nesbit, Badham, Sharon, Parker and Sung (2018) also found a significant relationship between ESE and social performance. It is recommended that entrepreneurs have frequent development workshops on ESE in order to improve performance. Entrepreneurial awareness programmes about green entrepreneurship or green environment should be implemented as many entrepreneurs will be encouraged to get into green business, resulting in good environmental performance, which in turn will improve the sustainability of SMEs. Various business forums and agents should create awareness on educating SMEs about the benefits of being a social responsible business. This study has some limitations. The study was done on one municipality and this limits the generalisability of the findings of this study. The procurement of full and relevant information from SME owners was difficult due to the fact that it is hard to disclose confidential information on performance. Other studies can further investigate the effect of owners' characteristics on sustainable performance and ESE.

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