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Industry-Specific Factors and Retail Stores' Financial Health: Evidence from JSE Listed Retail Stores in SADC

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Abstract

This study investigates the influence of industry-specific factors on the financial health of JSE-listed retail stores in the SADC region, focusing on inventory management, operational efficiency, market share, interest rates, firm size, and leverage. Stock turnover (ST) is employed as a proxy for financial health, reflecting the ability of firms to manage resources and generate sales efficiently. Using Feasible Generalized Least Squares (FGLS) to analyse a panel dataset spanning 1994 to 2022, the findings reveal that inventory management, market share, and leverage positively and significantly impact stock turnover. Conversely, interest rates exhibit a significant negative relationship, underscoring the sensitivity of retail firms to macroeconomic conditions. The study also demonstrates the relevance of trade-off theory in explaining the relationship between leverage and financial health, emphasising the need for retail firms to balance the benefits of debt financing against its associated risks. The results provide critical insights for managers in optimising inventory management practices and capital structures to enhance financial performance. Policymakers are advised to consider the implications of interest rate fluctuations on the retail sector's stability. Overall, the study contributes to the literature on financial health in the retail industry, offering theoretical and practical perspectives on managing industry-specific challenges.

Keywords: *financial health, stock turnover, trade-off theory, retail stores, JSE-listed firms, operational efficiency.*
JEL Classification G30, L81, R11.

Introduction

The retail sector in Southern Africa, particularly in South Africa, has undergone significant transformations over the past few decades. The 1998 financial crisis marked a pivotal moment, leading to substantial depreciation of the South African Rand. This depreciation prompted local retail companies to expand their operations into Southern Africa, resulting in a surge of mergers and acquisitions within the region (Andriantomanga et al., 2023, Bai et al., 2024). As South African retailers sought new markets due to saturation at home, they identified opportunities in neighbouring countries, leveraging their established brand equity and operational expertise. The expansion of South African supermarkets into the Southern African Development Community (SADC) has been driven by several factors, including urbanisation, changing consumer preferences, and favourable economic conditions in these markets (Weatherspoon and Reardon, 2003). The retail sector plays a crucial role in economic development by fostering consumer accessibility, employment opportunities, and market efficiency. The Southern African Development Community (SADC) retail stores contribute significantly to regional economies, particularly in South Africa, where the Johannesburg Stock Exchange (JSE) hosts many retail companies. Despite this critical role, the financial health of retail stores is often influenced by macroeconomic and industry-specific factors, which remain underexplored in the context of SADC (Mbulawa, 2015). Industry-specific factors such as inventory turnover, store location, cost efficiency, and product diversity are pivotal in shaping retail stores' performance and financial stability. Infrastructure limitations and economic disparities complicate retail operations in emerging markets like SADC. For instance, a study analysing JSE-listed companies in the food and drug retail sector highlighted that companies adopt different stakeholder focuses—employees, customers, or shareholders—influencing their financial strategies and outcomes (Gregory and Chasomeris, 2016).

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The COVID-19 pandemic further underscored the vulnerability of the retail sector to external shocks. Research assessing the impact of COVID-19 on JSE-listed companies revealed significant adverse effects on company performance, with varying magnitudes across different industry sectors. This period highlighted the importance of understanding macroeconomic and industry-specific factors in assessing financial health (Muthu and Wesson, 2023). Recent developments among JSE-listed retail stores illustrate the dynamic nature of the sector. For example, Pepkor Holdings reported a rise in revenue to ZAR43.26 billion for the six months ending March 31, 2024, driven by strong performance in traditional retail despite a challenging environment (Journal, 2024). Conversely, Truworths reported a 6.3% decline in full-year profit due to reduced discretionary spending by customers affected by high interest rates (Reuters, 2024). These cases underscore the need to examine industry-specific factors that influence financial health.

Furthermore, the exploration of corporate financial health represents an enduring phenomenon within the research space, continually expanding as it remains a topic of significant interest to most researchers (Islami et al., 2018). Mondal et al. (2016) define financial health as indicating a company's robust financial state and capacity to yield returns on invested capital. Being financially healthy entails implementing effective resource management and control (Van Horne and Wachowicz Jr, 2001). This emphasizes how important it is for businesses to deal with a number of issues, such as governance, social responsibility, and the natural environment in which they operate (Weetman, 2019). The financial health of retail stores is critical to their sustainability, profitability, and ability to compete in an increasingly volatile economic environment. Despite the global retail industry's growth, retail stores, especially those listed on the Johannesburg Stock Exchange (JSE) within the Southern African Development Community (SADC), face unique challenges influenced by industry-specific factors (Alter and Elekdag, 2020, Kolte et al., 2021, Mandipa and Sibindi, 2022, Pramono et al., 2020). These factors, including supply chain disruptions, inflationary pressures, changing consumer behaviours, and regulatory landscapes, have placed increased strain on retail operations in this region (Mandipa and Sibindi, 2022). For retail firms operating in SADC, understanding how these factors affect their financial performance is essential for survival and growth. However, prior studies have examined retail financial health globally, in East Asia, Europe, and North America, with limited participation from Africa (Baldwin, 2012, Geneva, 2013, Outlook, 2014, Foster-McGregor et al., 2015). There is a gap in the literature focusing on the influence of industry-specific factors within the SADC context, particularly for JSE-listed firms. The limited research on how these firms navigate SADC's economic, political, and social environments presents a critical need to analyse the region's retail sector dynamics more deeply. This study investigates the industry-specific factors affecting the financial health of JSE-listed retail stores operating in SADC. By examining metrics such as inventory management, cost structures, market share, and operational efficiency, the research seeks to uncover patterns and insights that can inform corporate decision-making and policy interventions. The findings will benefit stakeholders, including retail executives, investors, and policymakers, by offering evidence-based recommendations to enhance financial performance and resilience in the retail sector.

The subsequent sections of the paper are organised as follows: Section 2 focuses on the literature review; Section 3 describes the methodology; Section 4 gives the empirical results and discussion; and Section 5 examines the study's conclusions, consequences, limits, and recommendations for future research.

Literature Review

Theoretical Background

Resource-Based View (RBV)

The Resource-Based View (RBV) is a prominent theoretical framework in management strategy that emphasises the importance of a firm's internal assets and competencies as the main sources of competitive advantage and superior performance. It provides a lens through which the study can examine how internal resources and capabilities impact the financial health of retail stores. According to the notion, businesses that possess uncommon, precious, unique, and non-replaceable resources have a higher chance of gaining

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a sustained competitive edge, which can be reflected in their financial performance (Barney, 1991, Bertheussen, 2021). The theory is applicable by highlighting how industry-specific resources like effective supply chain management, inventory systems, and brand equity contribute to financial health. The study explores how the strategic deployment of these resources drives operational efficiency and profitability in SADC's challenging economic environment.

Trade-Off Theory

The trade-off theory suggests that leveraging debt can create value for firms due to interest tax shields, which reduce taxable income and increase available funds (Kraus and Litzenberger, 1973). However, as debt levels rise, the probability of financial distress, bankruptcy costs, and agency problems also increases, which may offset these benefits (Frank and Goyal, 2009). Recent studies have extended the theory to various contexts, examining its implications across industries and regions. For instance, Rodriguez (2024) analysed the impact of trade-off theory on firm performance in emerging markets, finding that firms adhering to optimal debt levels demonstrated higher financial resilience. Similarly, Bajaj et al. (2020) explored the theory in the retail sector, emphasising the role of market conditions and firm-specific characteristics in determining the optimal leverage ratio. This theory is relevant to this study because it explains the relationship between leverage and financial health. It provides a conceptual framework for interpreting the observed effects of leverage and interest rates, emphasising the importance of maintaining an optimal capital structure. This relevance enhances the study's theoretical rigour and offers applicable knowledge for retail managers and policymakers aiming to optimise financial health in a competitive and volatile environment.

Empirical review

The context of retail store companies in SADC

Listed food retail companies refer to SADC privately owned commercial outlets that mainly focus on selling food products (including fresh produce, packaged foods, beverages, dairy products, meats, general merchandise, bakery items, and other consumables) to clients for their consumption. These entities whose ownership shares are traded on a country's stock exchange. This means their shares are available for purchase and sale by the general public and investors, allowing individuals to become partial company owners by acquiring shares (Masojada, 2021). Listed food retail companies in SADC generate income by selling their products, and as a general rule, they earn between 5% to 12% net profit. Furthermore, they operate on a gross margin of 25% to 35%, meaning their stock cost is often between 65% to 75% of the price they charge. The top ten profitable items for a food retail company include prepared foods, vitamins, body care, fresh coffee, reusable shopping bags, cheese, deli meat, produce, bulk foods, and frozen foods. Additionally, by hiring more part-time workers with fewer benefits, they usually maintain personnel costs as low as possible while attempting to reduce theft and ruined inventory. The manager of the store is responsible for providing the resources and services that draw in new consumers and keep hold of existing ones once the product is delivered. (Barbara, 2018).

Industry-specific factors

Industry factors stem from the company's unique attributes and encompass the actions necessary to maintain competitiveness within the market (Islami et al., 2018). These may include expertise of the workforce, associated marketing strategies, corporate social responsibility obligations, and regulated rates of return on capital investments. The following sections discuss empirical studies related to industry factors.

Marketing Strategy/Market Share

Marketing strategies encompass informational and relational approaches designed to add value to customers and address their needs. Satisfied customers often become loyal patrons, contributing to the company's overall prosperity (Buble et al., 2003). However, studies examining the impact of marketing strategies have yielded slightly differing outcomes. For instance, Mohammadzadeh et al. (2013) investigated Iranian

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pharmaceutical generic manufacturers listed on the Tehran Stock Market over five years from 2006 to 2010. Their findings confirmed that strategic alignment between financial and marketing aspects significantly influenced company profitability. Contrastingly, Jaakkola et al. (2010) conducted a study in Austria, Finland, and Germany, utilising relative homogeneity and structural equation modelling (SEM) analysis. Their research identified negative associations between marketing efforts and company performance. Another study exploring the impact of strategic marketing activities on financial performance in 152 small businesses demonstrated that strategic marketing activities significantly influence financial performance (Mukherji et al., 2015).

According to Manawardhana (2022), marketing strategies, including advertising, sales promotions, public relations, and branding, are crucial for increasing brand awareness and market share. Farmanesh et al. (2017) stated that effective advertising and promotional strategies drive market share growth. Consistent and targeted advertising campaigns can enhance brand recognition and customer engagement. Ganepola (2022) emphasises that competitive pricing can increase market share by attracting price-sensitive customers. Utilising penetration pricing effectively captures market share quickly in new markets. Furthermore, promotional pricing strategies, such as discounts and offers, can stimulate short-term sales spikes, positively affecting a company's overall market share.

Operational Efficiency in Retail Stores

Operational efficiency in retail involves optimising processes such as inventory management, supply chain coordination, and in-store operations to reduce costs and improve service quality. A study by Macas et al. (2021) emphasises the importance of evaluating operational and economic efficiency in retail stores, highlighting that improvements in these areas can enhance overall performance (Aggelopoulos et al., 2023). Effective inventory management is a cornerstone of operational efficiency. Zietsman and van Vuuren (2022) provide a foundation for retail inventory management decision assistance, underscoring the role of computerised systems in managing large product assortments and improving efficiency (Mou et al., 2018). Supply chain efficiency directly impacts retail performance. A recent analysis by Kull et al. (2019) examines the efficiency and performance of global retail supply chains, identifying key factors contributing to operational success (Görçün et al., 2022). In-store operational processes significantly affect efficiency, including layout optimisation and staff allocation. Neves-Moreira and Amorim (2023) introduce the Dynamic In-store Picker Routing Problem, addressing the challenge of fulfilling online orders through in-store picking while minimising disruptions to offline customers. Their approach suggests that retailers can scale in-store picking without compromising customer experience (Neves-Moreira and Amorim, 2023).

Financial Health

One of the most critical metrics in retail management is stock turnover, commonly referred to as inventory turnover. It calculates the frequency with which a store sells out and replaces its stock over time. This measure, which offers information on inventory control, cash flow management, and sales efficiency, is frequently used as a proxy for evaluating the financial health of a retail establishment. When evaluating a retail store's financial health, stock turnover is considered from different perspectives.

Stock turnover is considered to be a crucial measure of sales effectiveness. A store that turns its inventory into sales will likely have a greater turnover rate, indicating robust demand and well-run operations. On the other hand, a low turnover rate can be a sign of outdated goods, overstocking, or poor sales success. Macas et al. (2021) argue that effective inventory management, as demonstrated by high turnover rates, is critical to retail profitability and competitiveness. In terms of cash flow management, Efficient inventory turnover guarantees that a large percentage of a retailer's capital is not locked up in unsold inventory, enhancing liquidity and cash flow. According to Choudhary and Tripathi (2012), retailers with higher inventory turnover ratios are better positioned to reinvest in their operations, lower their holding costs, and lessen the risks connected to unsold inventory. Also, stock turnover relates to operational efficiency. Research by Koumanakos (2008) and Hübner et al. (2016) highlights the correlation between strong supply chain management, operational efficiencies, and improved inventory turnover rates. Maintaining ideal inventory levels and turnover rates is facilitated by efficient logistics, precise demand forecasts, and effective supplier

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cooperation. Furthermore, Kieso et al. (2019) stated that inventory turnover becomes a key financial metric, reflecting the efficiency with which a company manages its inventory to generate sales implications.

Srour and Azmy (2021) conclude that inventory turnover, calculated as the ratio of cost of goods sold to average inventory, provides valuable insights into the efficiency of inventory management practices. In the food retail industry, where inventory management is critical for maintaining product freshness, minimising waste, and meeting consumer demands, inventory turnover is a vital indicator of operational effectiveness and financial health (Kwak, 2019). Since inventory accounts for many retailers' current and total assets, inventory turnover is significant in the retail sector. Retail inventory investment totalled over $637 billion in the United States 2018. Effective inventory management requires balancing excessive and insufficient inventory levels to reduce expenses and increase revenues (Pitari, 2020).

Leverage Ratio

Financial leverage enables companies to evaluate their financial requirements, borrowing potential, and capacity to generate returns, enhancing performance. The leverage ratio quantifies the extent of a company's debt relative to its equity or assets and is a pivotal indicator of financial health. Financial leverage is positively associated with firm failure, while the current ratio and return on assets negatively correlate with corporate bankruptcy (Tarighi et al., 2022). Due to increased financing costs, research has indicated that there may be a negative correlation between company performance and financial leverage (Barry and Mihov, 2015, Dawar, 2014, Harris and Raviv, 1991, Majumdar and Chhibber, 1999, Ramli et al., 2019, Zhang and Chen, 2017). Nonetheless, some studies contend that there is a positive correlation between financial leverage and firm performance because managers of a company with more debt financing are under pressure to maximise its performance (Akhtar et al., 2022, Detthamrong et al., 2017, Ross, 1977, Vithessonthi and Tongurai, 2015). Therefore, understanding the connection between a company's total debt and return on assets enables more efficient business management. Understanding the thresholds and coefficients specific to a given industry might help a corporation optimise its debt policy (Jencova et al., 2021). In addition to influencing profitability, the cost structure or operating leverage also influences how that profitability relates to other risk factors contingent on the nation where the business operates. More precisely, depending on the company's operating leverage, debt, size, innovative specificity, and reputation all impact profitability (Grau and Reig, 2021). Whether outside or internal resources finance the business determines its financial stability. Debt indicators keep an eye on this capital's structure. A company is more stable if it uses a more significant percentage of its money. A low rate of own capital indicates that the company is unstable, which could worry creditors and harm the financial health (Stašová, 2022).

Although significant research exists on the identified industry-specific factors and financial health of retail firms, particularly in developed and other regional markets, a gap exists in the context of JSE-listed retail stores in the SADC region. Apart from the research study in the different regions, only a few studies focus on the South African retail market, with little attention given to how industry-specific factors impact JSE-listed retail firms operating in other SADC countries. These countries' unique regulatory and economic challenges necessitate a more comprehensive analysis. Therefore, the study hypothesis that:

Industry-specific factors positively affect the financial health of retail stores in the SADC region.

Research Methodology

Data Source

The data for four SADC-listed food companies were sourced from the McGregor financial database and the annual financial reports covering 1994 to 2022, resulting in 116 observations over 29 years.

Measurement of Variables

The variables were measured as indicated in Table 1

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Table 1

VARIABLE	MEASURE	Source
Dependent variable (Y)		
Stock turnover (*Financial health*)	Cost of goods sold / Average inventory	Brigham (2016)
Independent variable (X)		
Inventory Management	Inventory Day Outstanding (Average Inventory /COGS)	(Aljaaidi and Bagais, 2020)
Operation Efficiency	Asset Turnover Ratio (Net sales / Average Total assets)	Ayaz et al. (2021)
Market Share	Firm's Revenue / Industry's Total Revenue Staff costs	(Bhattacharya et al., 2022)
Interest Rate	Weighted average cost of borrowing	(Kapuściński and Stanisławska, 2018)
Firm Size	Natural Logarithm of Total Assets (LogTA)	(Dang et al., 2018)
Leverage	Debt-to-Equity Ratio (D/E)	(Kurniawan, 2021)

Model Specification

Given the possibility of heteroskedasticity and serial correlation in the error terms, we employed Feasible Generalized Least Squares (FGLS) to estimate the econometric model. To provide consistent and effective model parameter estimation, FGLS is selected to address the heteroskedasticity and serial correlation in the data (Greene, 2018, Wooldridge, 2010) and cross-dependence. FGLS is also suitable for the study data structure of cross-sectional data of less than time dimensions (N<T). Furthermore, in addition to guaranteeing that the computed coefficients are impartial and effective within the given error structure, this method enables strong statistical inference. The model's specifications are as follows:

$$Yi = \beta 0 + \beta 1X1i + \beta 2X2i + \cdots + \beta kXki + \epsilon i \quad (1)$$

where Yi represents the dependent variable, $X1i, X2i, \ldots, Xki$ denote the independent variables, $\beta 0, \beta 1, \ldots, \beta k$ are the coefficients to be estimated, and ϵi is the error term.

$$Stock\ Turnover_i = \beta_0 + \beta_1 INVMGT_i + \beta_2 OPEFF_i + \beta_3 MKTSH_i + \beta_4 INTRATE_i + \beta_5 FIRMSIZE_i + \beta_6 LEVERAGE_i + \epsilon_i \quad (2)$$

Where:

INVMGT is inventory management, OPEFF is operation efficiency, MKTSH represents market share, and INTRATE is the interest rate.

Study Findings and Discussion

Table 2: Summary Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
ST	116	1.478	1.815	-3.379	7.132
INVMGT	116	2.12	.433	1.266	2.801
OPEFF	116	.949	1.737	-4.169	6.142
MKTSH	116	13.249	1.573	8.786	17.679

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INTRATE	116	1.988	.609	0	3.611
FIRM SIZE	116	3.921	.477	2.708	4.511
LEVERAGE	116	-.478	1.685	-3.026	4.383

Table 2 shows that the average stock turnover is 1.478, indicating a moderate turnover rate. The high standard deviation of 1.815 suggests variability in how often inventory is turned over within the sample. The range is -3.379 to 7.132. The negative minimum value could indicate data inconsistencies or specific circumstances, such as inventory shrinkage or errors in computation. High turnover (max of 7.132) suggests some firms are highly efficient in managing stock. Overall, it revealed high heterogeneity across all variables, demonstrating that the observed retail outlets employ various methods and performance levels. The large standard deviations for some variables (ST, OPEFF, LEVERAGE) suggest that firms operate under diverse conditions, which can significantly affect financial health. Variables like INVMGT, MKTSH, and FIRM SIZE display lower variability, making them robust indicators in modelling financial health. However, given the variation in the data, regression models may need to account for heteroscedasticity or firm-specific effects to provide reliable results.

Table 3: Correlation Analysis

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1) ST	1.000						
(2) INVMGT	0.130	1.000					
	(0.165)						
(3) OPEFF	0.535*	0.004	1.000				
	(0.000)	(0.968)					
(4) MKTSH	0.497*	-0.028	0.659*	1.000			
	(0.000)	(0.763)	(0.000)				
(5) INTRATE	-0.076	0.373*	-0.011	-0.062	1.000		
	(0.420)	(0.000)	(0.908)	(0.510)			
(6) FIRM SIZE	-0.165	0.350*	-0.353*	-0.588*	0.119	1.000	
	(0.076)	(0.000)	(0.000)	(0.000)	(0.204)		
(7) LEVERAGE	0.589*	0.071	0.801*	0.506*	0.067	-0.216*	1.000
	(0.000)	(0.448)	(0.000)	(0.000)	(0.474)	(0.020)	

**** p<0.01, ** p<0.05, * p<0.1*

Table 3 offers insights into the links between variables by highlighting the direction and intensity of linear relationships. Stock turnover (ST) has a significant positive association with the following variables: operational efficiency (OPEFF), implying that firms with higher operational efficiency tend to have better stock turnover. Market Share (MKTSH), suggesting dominance in the market enhances inventory utilisation. Leverage indicates pressure on firms to manage inventory efficiently to meet financial obligations. Most other correlations are weak and statistically insignificant, showing only a few linear relationships between the variables in this dataset. These insights can help us identify which factors substantially impact stock turnover and profitability measures in the retail industry.

Diagnostics Tests

Table 4: Variance Inflation Factor (VIF)

Variable	VIF	1/VIF
Operation Efficiency	3.70	0.270622
Leverage	2.87	0.348514
Market Share	2.48	0.403893

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Firm Size	1.86	0.536313
Inventory Management	1.39	0.718076
Interest Rate	1.18	0.846249
Mean VIF	2.25	

A VIF greater than 10 indicates high multicollinearity, potentially problematic for regression analysis. In this case, Table 4 revealed that all VIF values are well below 10, suggesting no severe multicollinearity issues (Shrestha, 2020)

Table 5: Autocorrelation Test

Wooldridge test for autocorrelation in panel data
H0: no first-order autocorrelation
F(1, 3) = 78117.102
Prob > F = 0.0000

Table 6: Test for Heteroskedasticity

Breusch–Pagan/Cook–Weisberg test for heteroskedasticity Assumption: i.i.d. error terms Variables: All independent variables H0: Constant variance	
F(6, 109) =	3.32
Prob > F =	0.0049

Table 7: Westerlund test for cointegration

Westerlund test for cointegration

H0: No cointegration

Ha: Some panels are cointegrated

Cointegrating vector: Panel specific

Panel means: Included

Time trend: Included

AR parameter: Panel specific

Cross-sectional means removed

1.	**2. Statistic**	**3. p-value**
4. Variance ratio	5. 3.3200	6. 0.0005

Tables 5, 6, and 7 displayed the results of autocorrelation, heteroskedasticity, and cointegration, respectively, and confirmed their presence in the study data with their respective p-values of 0.000, 0.0049, and 0.0005, which indicates rejection of the null hypothesis. This necessitated the employment of a more robust, Feasible Generalised Least Square model suitable to address the issues.

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Regression Results

Table 8: Cross-sectional time-series FGLS regression

ST	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
INVMGT	.924	.301	3.07	.002	.333	1.515	***
OPEFF	.01	.13	0.08	.939	-.244	.264	
MKTSH	.375	.105	3.59	0	.17	.58	***
INTRATE	-.417	.206	-2.03	.042	-.82	-.014	**
FIRM SIZE	.195	.235	0.83	.407	-.266	.656	
LEVERAGE	.518	.122	4.23	0	.278	.757	***
Constant	-5.03	1.985	-2.53	.011	-8.921	-1.139	**

Mean dependent var	1.478	SD dependent var	1.815
Number of obs	116	Chi-square	172.123

**** p<.01, ** p<.05, * p<.1*

Table 8 revealed that Inventory Management (INVMGT), Market Share (MKTSH), and Leverage are positively related to retail stores' financial health as measured by stock turnover and are statistically significant at 1%. INVMGT, with a coefficient of 0.924, implies that a one-unit increase in inventory management is associated with a 0.924 increase in stock turnover, holding all else constant. This finding agrees with the existing studies, Gołaś (2020), Hashed and Shaik (2022), Nyamao et al. (2012), Rajeev (2008), Sekeroglu and Altan (2014) which found that effective inventory management practices, such as just-in-time systems, enhance operational efficiency and improve financial health in retail stores and that optimised inventory turnover contributes to a retailer's liquidity and profitability by reducing carrying costs. MKTSH has a coefficient of 0.375, which means that a one-unit increase in market share is associated with a 0.375 increase in stock turnover ceteris paribus. This finding aligns with studies by (Edeling and Himme, 2018) and (Etale et al., 2016), which found a strong correlation between market share and profitability and concluded that market dominance provides competitive advantages, such as economies of scale and customer loyalty, which directly impact financial metrics as well as the ability to dictate pricing and capture customer base. In addition, leverage with a coefficient of 0.518 indicates that a one-unit increase in leverage leads to a 0.518 increase in stock turnover, other factors being equal. This finding agrees with the existing literature that implies that leverage can enhance firm performance when debt is used to finance value-generating investments (Senan et al., 2021). However, Interest Rate (INTRATE) with a negative coefficient (-0.417) shows a negative relationship with financial health and is statistically significant at a 5% level. A one-unit increase in the interest rate leads to a 0.417 decrease in stock turnover.

Discussion

The significant relationship between inventory management and stock turnover highlights the critical role of efficient inventory practices in improving financial health. This aligns with the resource-based view (RBV) theory, which posits that effective resource utilisation, such as inventory systems, provides a competitive advantage (Barney, 1991, Bertheussen, 2021). Retail firms with optimised inventory processes can minimise holding costs, reduce wastage, and ensure timely stock replenishment, thereby enhancing turnover rates. Retail firms should prioritise advanced inventory management systems, such as real-time tracking and predictive analytics, to achieve optimal stock turnover and improve overall financial health. The positive impact of market share on financial health underscores the advantages of market dominance, as Ma (2000) highlighted. Retail firms with higher market shares can leverage economies of scale, customer loyalty, and brand recognition to sustain financial performance.

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Furthermore, the significant positive relationship between leverage and stock turnover suggests that retail firms effectively utilise debt to drive operational performance and improve financial health. This aligns with the trade-off theory, which argues that the optimal use of debt can enhance firm value when the benefits outweigh the costs (Modigliani and Miller, 1958). However, the inverse relationship between interest rates and stock turnover highlights the financial vulnerability of retail firms to external economic conditions. Growing interest rates restrict operational flexibility, raise borrowing costs, and lower profitability.

Conclusion

This study investigates the relationship between industry-specific factors and the financial health of retail stores, with a focus on JSE-listed retailers in the SADC region. Using stock turnover as a proxy for financial health, the findings reveal significant relationships between financial health and key determinants such as inventory management, market share, leverage, and interest rates. These results provide valuable insights into the retail sector's operational and strategic drivers of financial performance.

Inventory management positively and significantly impacts financial health, underscoring the importance of efficient resource utilisation. Retail firms with optimised inventory practices are better positioned to minimise costs, improve liquidity, and sustain competitive advantage. Similarly, market share emerged as a significant driver, highlighting the critical role of market dominance in enhancing financial performance through economies of scale, brand loyalty, and customer retention. The study also found that leverage positively influences financial health, suggesting that moderate use of debt can drive growth and operational efficiency when managed prudently. On the other hand, the study identifies a significant negative relationship between interest rates and financial health, illustrating the sensitivity of retail firms to macroeconomic conditions. Increasing interest rates make borrowing more expensive, which limits operational flexibility and lowers profitability. While operational efficiency and firm size were not statistically significant in this analysis, their potential indirect effects warrant further exploration. These findings align with the resource-based view and trade-off theory, providing a theoretical foundation for understanding the dynamics of financial health in the retail sector.

Managerial and Policy Implications

The results of this study offer practical guidance for retail managers and policymakers. Managers should prioritise investments in inventory management systems, develop strategies to increase market share and adopt financial practices to mitigate interest rate risks by investing in advanced inventory management systems such as predictive analytics, real-time tracking, and just-in-time inventory systems to optimise stock turnover and reduce holding costs and effective training programs should be implemented to upskill employees in inventory handling and demand forecasting, ensuring alignment with market dynamics. Moreover, retail managers should prioritise strategies that increase market share, such as competitive pricing, targeted marketing campaigns, and customer retention initiatives. Building brand loyalty and expanding customer bases in underserved regions can enhance financial stability and growth. They should also adopt a balanced approach to leverage, ensuring that debt is used to finance high-return projects without exceeding sustainable levels. They should also diversify financing sources, including equity financing or long-term fixed-rate debt, which can provide financial stability during rising interest rates.

Regarding policymakers, they should encourage adopting inventory management best practices by offering tax incentives or subsidies for investments in technology and training and providing regulatory frameworks that support the development of robust supply chain networks to improve inventory efficiency. Furthermore, they should promote fair competition by formulating policies that ensure fair competition in the retail sector, which can help smaller firms increase their market share and financial stability, fostering a more inclusive retail environment.

Limitations and Future Research

This study contributes to the growing body of literature on financial health determinants in the retail industry. However, the findings are limited to JSE-listed retail firms in the SADC region. Future research

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could explore the generalisability of these results to other areas or sectors and examine the long-term effects of operational efficiency and firm size on financial health.

The study concludes by highlighting the complexity of financial health in the retail industry and providing useful information for practitioners and legislators. By leveraging these findings, stakeholders can foster resilience and competitiveness in the ever-evolving retail landscape.

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