

## SAIMS Conference Proceedings

### Note from Chief Editor

Once again, the SAIMS conference has attracted keen interest from a wide spectrum of established and young researchers primarily from the various Higher Education Institutions in South Africa. The very able and hardworking team at UKZN worked thoroughly through a large volume of papers received, pre-screening them prior to submission to the reviewers and, also post-screening resubmitted papers prior to final approval for inclusion on the programme.

I wish to also extend my appreciation also to the many reviewers who were very thorough in their reviews and provided very constructive comments on the papers. Since the objective of the conference is to provide an opportunity for developing researchers as well, the Work-In-Progress track has also once again attracted many papers and provides an opportunity for young researchers to develop their academic skills. Since in SA we have an ageing research-active population, by providing this opportunity, SAIMS is contributing to the development of future researchers and academics. Perhaps, sessions should be created for doctoral candidates to present their research ideas/proposals as this may be another strategy for increasing the quality of postgraduate research in the country.

Thanks to all the contributors who considered the annual SAIMS conference as an opportunity to showcase their sterling research, thus advancing the status of the organization.

Although every effort has been made to ensure uniformity and conformity to the SAIMS guidelines with regard to the format and technical aspects of the papers, we apologize should you find some papers not complying.

Enjoy the conference, network strategically, and good luck with your presentations.

Sincerely,

Prof Krishna K Govender

Deputy Dean: Faculty of Management Studies

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**SAIMS CONFERENCE 2011- BREAKDOWN OF PAPERS SUBMITTED**

	Full Papers	Works in Progress	Abstracts	Total
No Submitted	82	16 (+8)	11 (+ 7)	109
Accepted (no changes)	4	0	8	12
Accepted (minor changes)	40	10	0	50
Accepted (major changes)	14	0	0	14
Referred as WIPs	(8)	8	0	8
Referred as Abstracts	(4)	(3)	4 3	7
Rejected	(2)	(1)	(2)	(5)
Withdrawn	(10)	(3)	(1)	(13)
<b>TOTAL</b>	<b>57</b>	<b>17</b>	<b>16</b>	<b>90</b>
	69.5%			82.6%



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**COMMUNITY PARTICIPATION IN GLOBALISATION:  
A COMPARATIVE STUDY OF ESTONIA AND SOUTH AFRICA**

Paper: Southern African Institute for Management Scientists  
11-14 September 2011  
Durban

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*Keywords:* Community development, Estonia, globalization, Magopa, social fabric, South Africa, stakeholder interaction, Viimsi

\* This case study is part of an international project consisting of nine case studies, each of which covers one small community around the world. The project, "Enterprise, People and Place: Community Development in the New World", is partially funded by the SSHRC International Opportunities Fund, and includes regions in Canada, New Zealand, Australia, the Democratic Republic of the Congo, Estonia, Ireland, Mexico, New Zealand, Norway, Scotland and South Africa. Each of these nine case studies is written as a stand-alone document, but they will also be analysed together in various combinations and in total in order to synthesise what we have learned from this project about development in the evolving global economy.

# **COMMUNITY PARTICIPATION IN GLOBALISATION: A COMPARATIVE STUDY OF ESTONIA AND SOUTH AFRICA**

## **A. INTRODUCTION**

The theory of economic development has come a long way in the last 50 years. Earlier growth models concentrated on a few relatively easily measurable variables, such as capital, labour and technology and have had great success in explaining economic development in the first world. Unfortunately, using these models for less developed countries has most often not yielded great results. The poor are still poor, the hope for progress stays on life support. There is a renewed sense, however, that even if a community lacks some of the visible components for growth, not all hope is lost. As much as economic growth is about having the visible premises in place, it's also about the social fabric of the community: the ideas, interactions and values, and the resulting institutions that either empower people to explore their potential, or not.

This study focuses on the development experience of two small communities, delving deep into the interaction among the various community stakeholder groups in an attempt to describe these interactions and the social fabric of these two communities. Twenty years ago both were poor, since then one has become wealthy, while the other one remains poor. The communities are Viimsi, now a wealthy community in Estonia, and Magopa, still a poor community in South Africa.<sup>1</sup>

The stakeholder groups studied include corporations, entrepreneurs, government at various levels, and NGOs. Ultimately, an attempt is made to identify the factors that have contributed to the two communities participation in the global economy or the factors that have prevented them from doing so. The roles and interaction among various community stakeholder groups in this study are explored through structured interviews. The interview questions covered areas such as attitudes towards globalisation, entrepreneurship and sustainable development, community

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<sup>1</sup> Both communities have a background of dramatic political change in the country that they form part of. Estonia was one of the fifteen Soviet Republics until August 1991 when it declared its independence. The Soviet Union recognized Estonia's independence just a few months before its own dissolution in December 2001. In South-Africa, nationalist governments promoted racial segregation known as apartheid from 1948 on, limiting severely the economic and political freedoms of the non-white population. Apartheid policies officially ended in 1994 after the election victory of Nelson Mandela's African National Congress party.

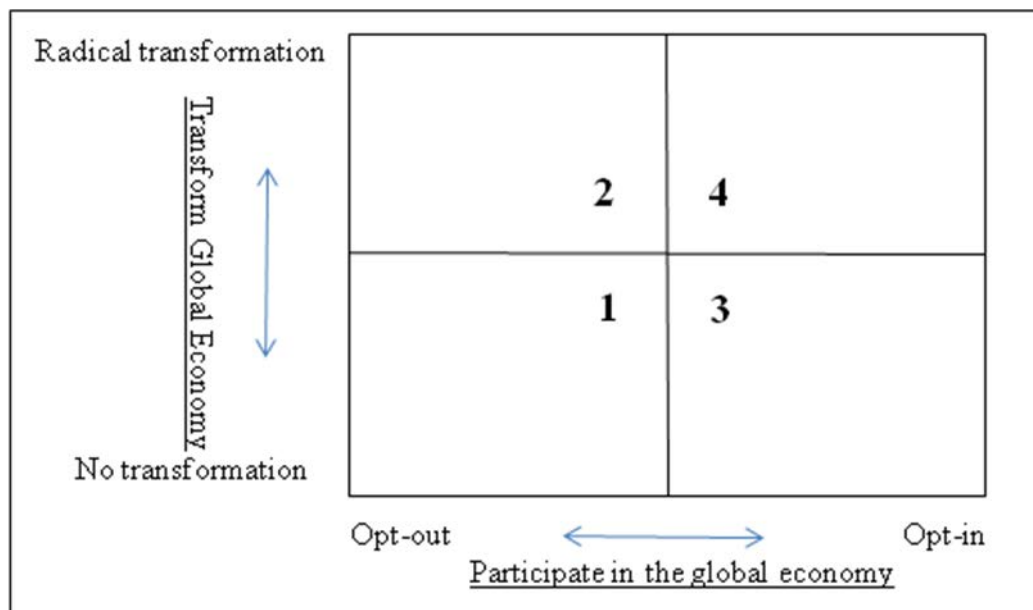
capital and relationships among various stakeholders in community, as well as the contributions of various community groups to development.

We seek to provide a useful tool to students and practitioners of development that will help them understand the outcomes communities experience as they participate in the global economy; and, more importantly, to provide guidance to communities as to how they might successfully participate in the global economy on their own terms.

### Theoretical framework

In order to understand the approach to the global economy among small communities, Anderson et al. (2005) reviewed the contents of all the issues of 41 development-related journals published between 1990 and 2002. Figure 1 summarises the results of this review on two continua. The first addresses the degree to which a group opts into the global economy, or opts out. The second addresses the nature of this opting in or opting out. Is the approach to accept the terms of the global economy “as is”, or is it to attempt to transform it in some fashion, either from inside or outside? A combination of the continua results in four extreme possibilities.

Figure 1. Approaches to global economy



Source: Anderson et al. (2005)

The first two (#s 1 and 2) occur when a group chooses to opt out of the economy. At one extreme the opting out can be passive; that is, choosing not to participate and instead seeking isolation and even protection from the global economy.

Alternatively, the opting out can be active and aggressive where a group rejects the global economy and seeks to resist it or overthrow it through protest and even revolution. The other two extreme positions (#s 3 and 4) occur when a group chooses to „opt in,, and actively participate in the global economy. Again that participation can be characterized further by the degree to which the group passively accommodates itself to the requirements of the global economy, or not.

The examination of development theory shows a range of potential responses that emerge (figure 1). The modernization and dependency perspectives dominated development thinking throughout the middle decades of the twentieth century. The former has been the operational paradigm driving the development agenda, giving the state a central role in the process; while the latter has emerged as a critique of the failure of this modernization agenda to deliver the anticipated development outcomes, often casting the corporation and/or developed states as the villain(s). Both perspectives can often adequately explain *what happened*. However, when applied in any particular circumstance to offer insight into *what might happen*, the two produce conflicting answers. Thus, they provide contradictory guidance to groups searching for a path to development as they perceive it. The modernisation perspective corresponds to Quadrant 3, while the dependency and the other radical perspectives including Marxist and neo-Marxist fit in Quadrant 1 and/or 2; but what about Quadrant 4?

In the closing three decades of the 20<sup>th</sup> century, the conflict between the modernization and dependency perspectives led many to conclude that both are incomplete (as opposed to wrong), with each describing a possible but not inevitable outcome of interaction between a developing region and the global economy. In this vein, Corbridge (1989) notes that there has been a powerful trend towards “theories of capitalist development which emphasize contingency [...] a new emphasis on human agency and the provisional and highly skilled task of reproducing social relations.” Tucker (1999) states that this allows “for the possibility of incorporating the experience of other peoples, other perspectives and other cultures into the development discourse.” Development need not be as defined by the „developed world“ and the interaction between a particular people and the global economy need not be as envisaged by the modernization or dependency perspectives; it can be something else entirely. This suggests a response in Quadrant 4.

Taking this argument forward and using one of the emerging contingent theories on development – regulation theory – we developed our framework in [figure 2](#). Communities do not adopt their perspective on the global economy in isolation or in abstract. It emerges in response to direct experience with four groups with whom they interact (1) corporations (2) the „state“ at local, sub-national, and national levels; (3) a myriad groups of the civil sector including non-government agencies (NGOs) and special interest groups of all types; and (4) supranational bodies, such as the WTO, World Bank, the European Economic Union and NAFTA.

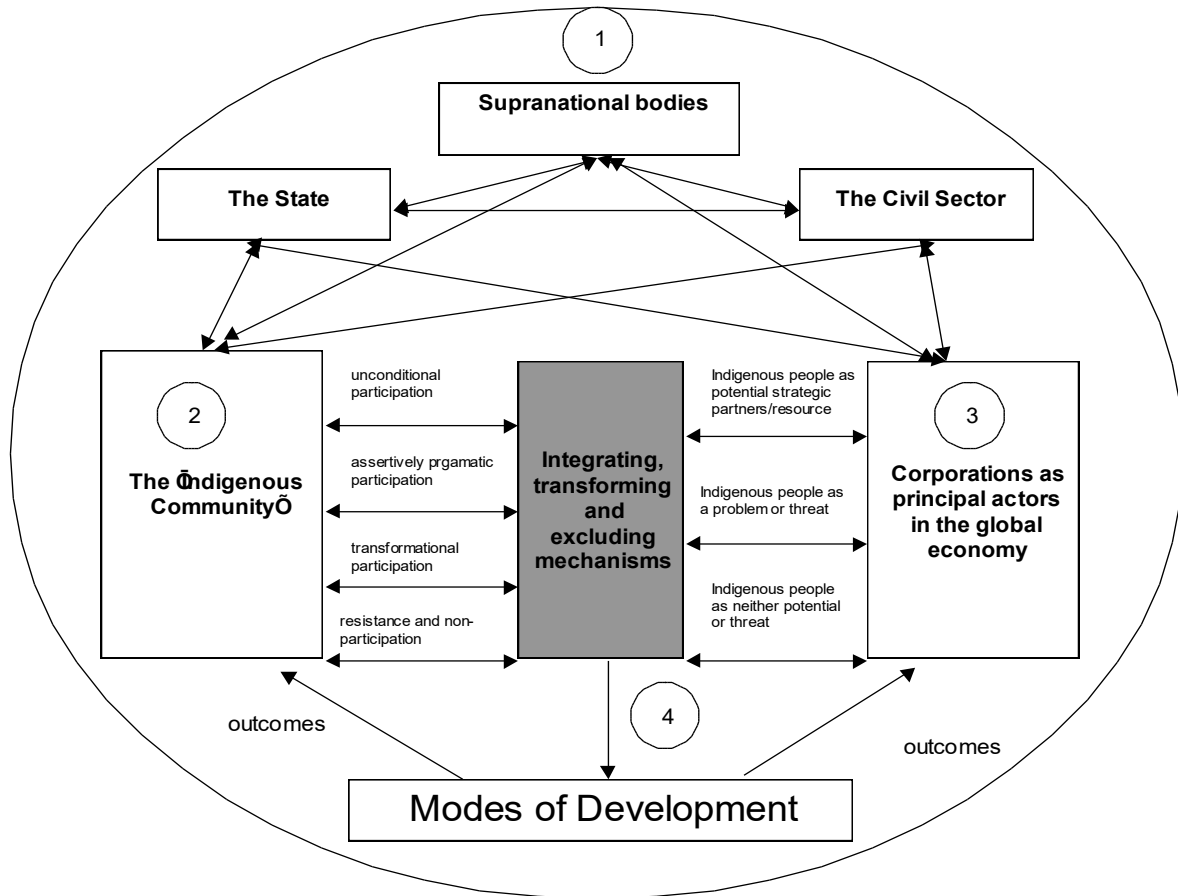
This framework depicts the relationship between communities and the global economy, and the players that shape that relationship. Because it does not start from a specific theoretical perspective, we feel that the framework is in tune with the emerging contingent view of development. The framework leaves room for the possible application of all manner of theories including modernization, dependency, Marxist and neo-Marxist, world systems and other to analyze the approach and actions of all the players, not just the community.

In most instances, we find that the different players bring to their relationships differing expectations flowing from differing perspectives on development and the global economy. A particular actor must understand the perspectives of the other actors in order to achieve its objectives. For example, what strategies and actions can a community wishing to develop on its own terms (i.e., respecting traditional practices and values) adopt when faced with a state government, the mainstream population and the MNCs fully committed to the modernization view? How such communities approach the state, and how they work with the other actors to accomplish their ends is the interesting question.

While originally developed for studying change among indigenous people, the above framework is by no means restricted to development in indigenous communities. The world has many similar small communities struggling to come to grips with the global economy as it evolves. While any community is free to choose its level of engagement with the outside world, the past economic evidence suggests that choosing isolation from outside world results in stagnant incomes. Therefore, if income growth is one of the objectives of a community, it seems an attractive choice for a community to participate in the global division of labor at least to some extent, while trying to do this „on one“s own terms, exercising as much control as possible over the process of change. This corresponds to Quadrant 4 in [figure 1](#). The question is, how can it

be done, if at all, and what are the characteristics of those communities that succeed? And what might others learn from them?

Figure 2. Analytical framework



**Areas of Investigation**

Source: Anderson et al. (2005). The civil sector and supranational bodies on the multiple overlapping modes of social regulation and and therefore on the participants in the global economy, and the influence of the participants on the State and the civil sector.

2. Indigenous approaches to economic development including current circumstances and objectives, approach to participation in the global economy including strategies for participation transformation and/or resistance, expected outcomes, actual outcomes.

3. Corporate responses to Indigenous issues, particularly motivating forces, strategies, expected outcomes, and actual outcomes. to combine the strengths of all the competing perspectives on development. Furthermore, we expect to show that these perspectives are not competing at all, but instead are each incomplete partial explanations of the complex, contingent and highly skilled task of reproducing the social relations involved in development. These theories or perspectives are best used in combination, not isolation, when seeking to understand the actions of the parties in the development process, and in generating strategies and policies for fostering development in the evolving global economy.

times, and changes over time.



## **Research tools and techniques**

Our unit of analysis, community, had to fulfill the following characteristics to be useful for analysis. It must have a location, a place that binds people together at least to some degree with the people living and working in that place seeing themselves a community, separate in some way from people in other locations. In choosing our communities we started from Etzioni's (1996) definition of a community:-

*“a community entails a web of affect-laden relations among a group of individual, relations that often crisscross on another (rather than merely one-to-one relations or chains of individual relations); and a community requires a commitment to a set of shared values, norms, and meaning, and a shared history and identity – in short, a shared culture.”*

Furthermore, a community must also have a tangible structure associated with it and its affairs – a local government, a community organization, a traditional governing body or some such – that give the community a “collective” identity.

The next step in the analysis was to decide what we need to know about a community if we are to be successful. In this we found the work of Roseland (2005) on community capital helpful. He suggest that “community capital is the foundation for sustainable community development” and has six components: natural capital, physical capital; economic capital, human capital, social capital and cultural capital. We will assess each our communities with respect to these six capitals.

While a common set of research propositions and questions is essential to ensure comparability among cases, we also allowed some methodological variation from case to case to adjust for the local circumstances. In the end, our common objective was to produce case studies that can stand alone as a description of the particular community and its experience with development in the global economy. However, both studies will attempt to answer the same fundamental research questions which are (i) why do communities choose to participate in the global economy (or not), and (ii) how have they done so effectively (or not), and the many questions that flow from these two. The case study protocol including interview guidelines was developed based on the framework in [figure 2](#).

When answering these questions, we will examine communities and their stakeholders as they engage in the creation of new economic spaces that Scott (1988) says are the result of a “very specific articulation of local social conditions with wider coordinates of capitalist development in

general.” Dicken (1992) further notes that successful participation in the global economic system “is created and sustained through a highly localized process” and that “economic structures, values, cultures, institutions and histories contribute profoundly to that success.” In our case studies we aim to capture the articulation to which Scott refers, while ensuring that we also consider the points raised by Dicken with regards to a successful participation in the global economy.

In the next pages we will first describe Viimsi and Magopa separately using our basic framework. We will show that while both communities started from a low level of development, their development has taken quite different a path in the last 20 years. Viimsi has seen a great rise in wealth, in the process becoming the most prosperous community in Estonia. Magopa, on the other hand, has stayed on the sidelines of global wealth creation. Economic progress in Magopa has been slow, and while there are some positive developments to report, Magopa’s direction and destiny in a changing world is far from clear. For us the interesting questions are: What do Magopa residents want from their future, what resources do they have to accomplish their goals, and finally, what could they learn from the experience of Viimsi when trying to improve their lives? The answers will follow.

## **B. SURVEY RESULTS: VIIMSI (ESTONIA)**

Ovaska and Anderson (2010) published a qualitative study in the *International Journal of Development Issues* on the critical factors behind the recent economic success of Viimsi (Estonia). Using two sets of resident surveys, they explored the roles of and interactions among various community stakeholder groups when explaining why Viimsi (estimated 2008 population of 12,000) has become the wealthiest community in the country. Their narrative described the factors behind Viimsi’s success since 1991, when Estonia regained its independence from the former Soviet Union, showing how a small community can successfully affect its destiny in a global world.

After regaining independence in 1991, Estonia quickly moved away from the principle of central planning. Prices and trading were deregulated, private property with a large-scale privatisation instituted, a new independent Central Bank created, and in general, new market-conforming institutions put into place. Within 15 years the country had shifted its trading from the former USSR to the rest of the world, while simultaneously adjusting the structure of the economy from

large-scale manufacturing to services. While there were significant reductions in economic output during the early years of transition, since the late 1990s until the beginning of the recent global recession Estonia was one of the fastest growing economies in the world, with the real GDP growth averaging over 7% per annum. According to the *Fraser Institute*, Estonia is now one of the most free market oriented economies in the world. The *World Economic Forum* ranks Estonia as the most competitive of all the former socialist countries, having surpassed many Western free market economies.<sup>2</sup> Interestingly, the income growth in Estonia has not come from debt-financed government spending. Estonia's federal government (and tax burden) is small, and its consolidated debt (4.8% of GDP in 2005) is lower than that of any OECD country.

According to Lehto & Sõstra (2006), the average real gross monthly income per employee in Estonia in 2005 was approximately EEK 7,830. At the municipal level this number ranged from a low of EEK 3,946 (Pirissaare) to a high of EEK 12,909 (Viimsi), making Viimsi's mean income in 2005 the highest in the country, a full 65% above the national average and 45% above the capital, Tallinn. While geographical distance to economic centers is a well-known predictor of income and income growth for communities, Viimsi's proximity to Tallinn is not the determining factor in explaining its high income level. When Lehto and Sõstra (2006) estimated various regression models explaining communities' income levels based on distance to Tallinn, Viimsi ended up as a lone outlier in the results, its income still nearly 30% higher than the model estimated. Viimsi's income also outpaced by a wide margin all communities with a similar distance from Tallinn. Hardly surprising given its income level, Viimsi also stands out in the level of entrepreneurial activity (as measured by business registrations). In 2005, there was one registered enterprise for every 13.2 residents in Viimsi, as compared to the Estonian average of 30.4. Besides the country's commercial capital, the City of Tallinn (17.4), no other municipality comes even close to Viimsi in this metric.

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<sup>2</sup> In the Fraser Institute's annual *Economic Freedom of the World* (2006) study Estonia is ranked 12<sup>th</sup> among 130 countries, ahead of such well-established market economies as Germany, Japan, France and South Korea. In the World Economic Forum's annual *Global Competitiveness Report* (2006) Estonia is ranked 25<sup>th</sup> among 125 countries, well ahead of many emerging economic powerhouses, including Malaysia, Thailand, India, and China.

Table 1 below lists the number of active enterprises for Viimsi, and Estonia. The annual compound growth rate for the number of new enterprises between 2004 and 2008 in Viimsi was 24.5%, whereas the same number for the whole country was 9.2%. At this rate the number of new enterprises in Viimsi doubles every three years, a very brisk pace. Even when adjusted for the total population growth between 2004 and 2008, the new enterprise creation rate in Viimsi during the period was about twice the national average.

Table 1. Economically active enterprises (2004-2008)

	2004	2005	2006	2007	2008	% change 2004-2008
<b>Whole country</b>	41 467	44 840	50 705	56 139	58 895	42.02%
<b>Viimsi</b>	569	672	851	988	1 367	140.25%

*Source: Statistics Estonia Regional Database*

As table 2 below shows, Viimsi's economic structure is service-based, firms in agriculture, manufacturing and construction accounting for less than one fourth of the total number of firms. The base of economic activities in Viimsi is spread over relatively many types of activities. The fact that the community depends less on the fortunes of just one sector can certainly be valuable for the long term stability of the community. Having "all the eggs in one basket" is a fine strategy as long as it works. However, the world is full of examples of the closure of a large employer(s) sending a community into a tailspin that's hard to recover from. The changing fortunes of many cities in the American rust-belt demonstrates the benefits of economic diversification.

Table 2. Viimsi enterprises by economic activity (2008)

Economic activity (total of 1,275 enterprises)	% of total
<b>Agriculture, forestry and fishing</b>	2.2
<b>Manufacturing</b>	8.4
<b>Water supply; sewerage, waste management and remediation activities</b>	0.2
<b>Construction</b>	11.3
<b>Wholesale and retail trade; repair of motor vehicles and motorcycles</b>	23.0
<b>Transportation and storage</b>	5.9
<b>Accommodation and food service activities</b>	1.6
<b>Information and communication</b>	4.4
<b>Financial and insurance activities</b>	3.6
<b>Real estate activities</b>	7.8
<b>Professional, scientific and technical activities</b>	19.3
<b>Administrative and support service activities</b>	5.1
<b>Education</b>	1.2

<b>Human health and social work activities</b>	1.7
<b>Arts, entertainment and recreation</b>	2.3
<b>Other service activities</b>	2.1
<b>Total</b>	100%

*Source: Statistics Estonia Regional Database*

As can be seen from table 3 below, an overwhelming majority of the firms in Viimsi are small, with fewer than ten employees. This is the hallmark of a modern service-oriented economy. But it is equally a sign of the favorable social atmosphere towards entrepreneurs that people are so willing to try their hand in new businesses. The small size and service orientation also reflect the available start-up funding opportunities. The start-up costs in services are typically modest and can in many cases be funded by personal savings. When the business and its reputation grows, resorting to trade or bank credit becomes much more feasible.

Table 3. Business size in Viimsi (2008)

	<b>Total</b>	<b>Less than 10 employees</b>	<b>10-49 employees</b>	<b>50-249 employees</b>	<b>250 and more employees</b>
<b>Number of firms</b>	1 275	1 178	80	17	0

*Source: Statistics Estonia Regional Database*

The Viimsi municipality government's 2006 revenues and expenditures were EEK 153.6 and 156.2 million, respectively. This translates to about EEK 16,000 per resident, the highest among all municipalities in Estonia. The local spending per resident (in EEK) was a full 46% above the average for municipalities, however, when made relative to local incomes, the government size in Viimsi is actually slightly below the average of all municipalities. On the revenue side of Viimsi's budget, the most important sources were income taxes (74% of total) and property taxes (18%). On the spending side the most important categories were education (42%), economic infrastructure (16%), municipality administration (15%) and recreation, culture and religion (11%).

### **Data and findings: Viimsi**

The primary data for the study was acquired by interviewing 20 Viimsi residents representing various stakeholder groups in the municipality. The interviews were conducted in 2007 and covered political leaders; bureaucrats; community leaders in health care, education and social

affairs; clergy; founders and managers of small business enterprises; and corporate directors.<sup>3</sup>

The interviews were designed to cover the following areas of interest:

- A) Community attitude toward globalization
- B) Community attitude toward entrepreneurial activities
- C) Entrepreneurship and sustainable development
- D) Current business development activities
- E) Stakeholder contribution to entrepreneurial activities
- F) Community capital
- G) Views on future challenges
- H) The Soviet legacy

The data from the interviews was supplemented with the results from a 332 people residential survey, which was completed in 2005 by the Geomedia Company.<sup>4</sup> The study was commissioned by the Viimsi municipality, surveying Viimsi residents on their satisfaction with government services and on their life in Viimsi in general.

### **Community attitude toward globalization**

The respondents viewed globalization as an opportunity rather than a threat. It was noted that globalization enables the locals to learn about the past experiences of other communities and sidestepping the mistakes others have committed. Also, people noted that globalization makes new inventions quickly available, which is particularly important to a country with a background of relative isolation under socialism. As an additional benefit of globalization, training opportunities abroad were also mentioned several times. Opening up for trading and competition was seen as a good way for both existing and potential local business people to acquire new skills and customers, and operate more efficiently. It was noted that globalization brings both consumers and businesses lower priced goods in greater variety and quality than ever before. While globalization brings with it many challenges, including stiff competition from highly efficient foreign companies and loss of jobs in areas of non-competitiveness, the benefits of globalization were still considered simply too great to forgo. Rather than individuals passively

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<sup>3</sup> The questionnaires drew from the previous work done by Mikkelsen et al. (2008) on the sustainable development and social issues in the Arctic, and by the Global Entrepreneurship Monitor survey of country experts on infrastructure, cultural and legal conditions influencing entrepreneurial activity in the community. For additional details, see [www.gemconsortium.org](http://www.gemconsortium.org).

<sup>4</sup> In Estonian: “Viimsi valla elukeskkonna uuring.” Translation in English: “Study of Viimsi as a Place to Live.”

bearing the blows of globalization, the interviewed emphasized a sense of togetherness in facing the challenge of change, and working together to create solutions to counter the negatives to all stakeholders. Interestingly, the above is reminiscent of one of the core teachings in socialism – society’s goals are best reached by a collective, rather than an individual, effort. So, what we found in Viimsi was a simultaneous positive juxtaposition towards free markets and a non-individualistic response to community development and change.

### **Community’s position toward entrepreneurial activities**

Overall, the community attitude strongly encourages entrepreneurs to move ahead with their ideas. Instead of an undesirable vestige of the capitalist past, as was the official view under the socialist regime, entrepreneurs are now considered an integral part in Viimsi’s social fabric as full-status strategic partners and a resource in community development. In the classical economic sense going all the way back to Adam Smith, the dominant view in the community seemed to be that while working for their own lot, entrepreneurs are also promoting the public good by creating job opportunities, higher incomes and better means for the government (tax revenue) and NGOs (donations) to improve people’s lives.

### **Entrepreneurship and sustainable development**

While the attitudes in Viimsi towards entrepreneurship are very supportive, people were not willing to give business firms *carte blanche* when it comes to community development. Most interviewees were aware of the precautionary principle – an activity should not proceed if there is a reasonable ground for concern that it might be harmful – and stressed the importance of treading cautiously when instituting policies that affect both the social sphere (income distribution, availability of public goods and services) and the environment. Interestingly, economic development in general was seen as a way to foster environmental quality, rather than destroying it. The general view among the community stakeholders was that funding environmental causes is easier done by a wealthy than a poor community. Entrepreneurs were seen as an important building block in the foundation towards environmental sustainability.

### **Current business development activities**

When asked about the most important achievements of the community in the last fifteen years, the list of achievements had surprisingly few directly economic items. The achievements

mentioned were mostly in education, health and general quality of life spheres, often with some government involvement. While the distinctive feature of Viimsi to outsiders is its wealth and income growth in the last fifteen years, this was hardly mentioned in the interviews. While people considered economic development important, it also seemed that most people took more pride in the overall good life balance that Viimsi has been developing. Government was also considered having played an important role in helping community members to put into practice projects that individual initiative could not achieve.

### **Stakeholder contribution to entrepreneurial activities**

The success of a community is a result of various stakeholder groups' cooperation. Skills and to a lesser extent capital are a necessary component of entrepreneurial success, but they alone are not enough. For that, an enabling business environment (including accepted norms, rule of law) is also required. It appears that this was the highly successful joint contribution of the government and civic groups in Viimsi. Thanks to extensive formal and informal interaction, the community stakeholder groups have created a positive, enabling environment for entrepreneurship. Required permits and licenses are easy to acquire, the tax burden on new firms is low, and regulations are applied to firms in a predictable and consistent manner. With near unanimity, people working for government agencies were considered competent and effective in supporting new firms. Interestingly, while foreign governments were not well regarded in terms of helping community development, the view on supranational international organizations (such as EU, EBRD and UN with its various agencies) was strikingly different. They were rated high both for their understanding of the community and their help in community development (loans, grants, technical assistance, bureaucratic competence building).

### **Community capital**

Education is a well-known stimulant of income growth, and an important component of community capital in Viimsi. Every participant strongly agreed that teaching in primary and secondary education in Viimsi encourages creativity, self-sufficiency, and personal initiative. A general agreement also prevailed that the education system in Viimsi pays adequate attention to the importance of entrepreneurship and new firm creation. While creativity and initiative are desirable character traits, they are hard concepts to teach, though. Interestingly, a few people noted the positive influence of the old Soviet system in this area. The constant shortage of goods



and services under the system of economic planning also encouraged people for divergent, creative thinking and self-initiated action. That was the only way to work around the material constraints placed upon them by the system. This trait is complemented by the new social norms encourage entrepreneurship, becoming wealthy through business. It was also noted that even if lacking a particular piece of information, people's good level of general education both in pre- and post Soviet time enabled them to look for new sources of knowledge. Finally, as a result of their Soviet experience, many respondents were quite wary of unnecessary government regulations. This paved the way for a business environment that promotes and fosters self-initiative. Government was not perceived to stand in the way of starting a business, but rather as a force which creates order and aids residents to get started in putting their ideas into practice.

### **Views on future challenges**

Overpopulation and urbanization were seen as the foremost challenge that could endanger the attributes that make the community desirable to its residents. While the respondents agreed that the community has done a good job in absorbing the influx of new residents (1989 population est. 5,300; 2011 est. 16,900), there was also a real concern that this may be changing the overall identity of the community. The larger the population, the more difficult it will be to unite on shared, traditional Viimsi goals. Overall, achieving balanced growth was the overwhelming answer of people when asked about future challenges. The common denominator seemed to be the desire to preserve a few characteristics that make Viimsi special: Commitment to a clean and well-preserved environment and to wide-ranging publicly funded services. Creating a welcoming environment for entrepreneurship was seen as an important mean in achieving the goals. Interestingly, despite their past hardship under socialism, Viimsians still view government as their ally in fighting uncertainty. In addition, there are still signs of the old-style solidarity present among fellow residents of modern-day Viimsi. Taken these two together may partially explain why Viimsians are open to change.

### **The Soviet legacy**

While various aspects of the Soviet legacy in Viimsi have already been discussed in earlier parts of the paper, an additional overall judgment is still warranted. The ultimate legacy of the centrally planned economic system for the people interviewed seemed to be the realisation that government-run resource allocation does not work well. Rather than a comprehensive economic

plan, market interaction between economic agents was deemed to provide a better solution to society's economic problem of how, what and for whom to produce

The community attitude in Viimsi displays remarkable openness to embracing the free market system, even with the inevitable change that comes with it. Rather than being discouraged by the uncertainty that change brings, the community attitude encourages people to take chances, and be adventurous when looking for ways to participate in markets. Correspondingly, entrepreneurial activity is greatly appreciated by community members. The general feeling in the community is well summarized by the encouraging, yet pragmatic answer one interviewee gave when asked about advice for those interested in becoming an entrepreneur: "You should always try it out, every beginning is difficult."

One of the goals of economic planning under the Soviet regime was to do away with the economic uncertainty that is an intrinsic, but also a regrettable, part of the market system. A well-devised plan by the central planners was a way to reduce uncertainty about the future. Furthermore, the plans were also tools to even out income disparity in society, and thereby create a stronger sense of solidarity among citizens. It appears that up to today, Viimsi residents consider the government a protector of people's interests in the global world. While globalization comes with many benefits, the change that comes with it can also be unsettling, with at times adverse consequences for which one can not prepare. Trust in government, combined with solidarity among fellow residents, seem to provide just the strength needed to face that change. While the misuse of public office doesn't seem to be a big issue in Viimsi, a few people noted that one can still now and then come across what one person referred to as "the deficit of moral values stemming from the Soviet past." Instead at the government level, this problem shows up more in private transactions, in not being able to trust the other side of a business transaction. While Viimsi is in no means corruption free, one interviewee argued that compared to just 20 years earlier, "corruption is not much of an issue anymore."

### **C. SURVEY RESULTS: MAGOPA (SOUTH AFRICA)**

The study focuses on the Magopa community - better known by its own people as Bakwena ba Magopa. The Magopa community is one of a cluster of six communities in the southern part of

the North West province of South Africa. These communities were resettled on its land in 1994 after having been stripped thereof under the previous political regime.

Today the Magopa community has a school, administration offices, a community hall, a water reservoir, and it is also involved in small scale mining. Agriculture is the main activity in the region. The size of the farming area is 1,305 hectares (3,225 acres). The village faces the typical challenges of land reform. There is high unemployment, lack of a vibrant business sector and only a small portion of the population benefits directly from the agricultural activities.

Table 4 below shows the 2001 as well as the most recent (2004) population estimates for the community. The table shows that the population has grown at an average rate of about 2% between 2001 and 2004. This growth rate is slightly above the national (1.5%) and provincial (1.4%) average growth rates for the same period (2001-2004).

Table 4. Magopa population

<b>Village</b>	<b>Population in 2001</b>	<b>Population in 2004</b>
Ga-Magopa	1424	1466

*Source: Southern District Municipality, November 2004*

As all the villages in the cluster, Magopa faces a number of significant challenges that are typical of the challenges of land reform and Black economic empowerment in South Africa’s agricultural sector after 1994. The villagers have been settling in the area after being the beneficiaries of South Africa’s land restitution program. They face a number of challenges. Firstly, the area has a high unemployment rate – estimated at about 70% (van der Walt and Naude, 2006). Most of the unemployed are women. Secondly, despite the access to agricultural land (a large motivating factor for land restitution and reform), agricultural entrepreneurs are few and that only a relatively small proportion of the population benefit from agriculture. Moreover, even for those engaged in agriculture their situation is characterized by agricultural development and yields that are low. Most farming is for subsistence only and apart from crops, there is widespread farming with livestock and poultry. Thirdly, there is little evidence of off-farm entrepreneurial activity (e.g. trade) and most of the consumption needs of the community are met by retailers situated in a nearby town. Fourthly, the rural settlements in the area are splintering off which is leading to a dispersed rural settlement pattern, which raises the cost of provision of bulk services to each village and leads to a duplication of services. Fifthly, although most villages are provided with basic services by the Southern District Municipality (water, sanitation)

the quality of life is still low with most households living in informal and semi-informal houses (van der Walt and Naude, 2006).

Two foreign role players are currently directly involved in the community - a German solidarity group and an international diamond exploration company. The Germans have been involved in Magopa community since 1983 by means of a solidarity group. They supported them in their resistance against the forced removal by providing some funds for consultative services to the community and organised exchange visits, including exposure to ecological farming in Germany. The German groups involvement focuses more on humanity and the support of groups who might be the victims of neo-liberal globalization. According to a group member, the continued relationship is important and influential and cannot be ignored (Duchrow, 2006).

The diamond exploration company is currently the biggest employer in the community employing about 80 individuals. The company also invests capital in skills training (specifically junior managers), and sponsored various community and entrepreneurial projects. The company sees the community to be self-sustainable in ten to fifteen years from now. Mining and agriculture is perceived as a vehicle for sustainable development, therefore they saw fit to invest in the training of farmers as well as mentoring them. They also foresee that the community will become involved in diamond cutting operations. Presently, the international company has accepted some responsibility towards the development, and there are promises of more social investments.

### **Data and findings: Magopa**

For Magopa, Buys and Van der Walt (2006) conducted interviews with community leaders, (ii) community partners ( corporate partners), and (iii) entrepreneurs (owners of small businesses) from the community. There are eight community leaders serving as the Magopa management committee. Eleven entrepreneurs and two corporate partners were identified who were all interviewed. The community partners who were involved in the study were a German solidarity group and a international mining company who is co-shareholder with the community in a mining operation.

## **Community leaders**

The community leaders play a very important role in the daily existence of a community. Allocation of communal land for agricultural projects as well as projects which might have an impact on the community are managed and approved by the leaders. The chairperson of the management committee sees the role of the leaders to look after the well-being of the community, get involved in the development, manage conflict and ensure peace and stability. The community leaders express the existence of a feeling of collectiveness amongst community members. Cooperation, patience and discipline express the relationship in the community. People accept a joint responsibility to support each other. This is also evident when looking at results of other studies (van der Walt and Naude, 2006) which indicate that one of the important sources of income of community members is money received from relatives working in the cities.

Entrepreneurship is considered as important for sustainable development although the general feeling is that entrepreneurial activities are not sufficient. The main reason for that is a lack of proper planning in the initial phases as well as a lack of business skills. The leaders are of the opinion that government should invest more in the training of people as well as providing bridging finance for potential new ventures. The leaders of the community are in favour of more industrial activities due to the fact that land can produce enough to support the community up to a certain stage. Due to potential population growth they would need business activities to support sustainable development. Community leaders consider the environmental and social aspects as a priority to the economical aspect when referring to the effect of entrepreneurship.

There is also the view that central government tend to focus more on urban areas and that local communities have to rely more on municipalities and the local government. Although emphasis is placed on the development of the small business sector the support for new businesses is not sufficient. This problem was also identified in other research projects (van der Walt and Naude, 2006) which indicated a very low rate of formal business activities by community members.

The community leaders are of the opinion that although globalization can offer opportunities for community development it can also be a threat because local people can be exploited and only the rich will benefit by it. There is however consensus among community leaders that

globalization is unavoidable and that central and local government should support communities in the process. The current exposure to globalization is limited to the international mining company. Although the international company is supporting local projects and also employed local people it is difficult to determine who benefits the most, the international company or the local community. This also raises the issue of the rich becoming richer and the poor becoming poorer. The result of a study (van der Walt and Naude, 2006) which highlighted the poor state of the community (high unemployment figure and low entrepreneurial activity) makes this question even more relevant.

If people are not well educated one can ask whether it is possible to participate in global activities to one's own advantage and not being exploited by large international role players, especially if decision making primarily reside with the management committee.

## **Entrepreneurs**

Entrepreneurial activity, other than small scale farming, is very low in the community. Only eleven businesses could be identified. The main business activities focus on the selling of food, and manufacturing of clothes.

There is a definite indication that very little support were given to entrepreneurs during the establishment phase of their business. All the respondents complained about the lack of advice during the start up phase. None of the entrepreneurs has received any formal training and there is a big need for business skills. Although poverty and unemployment is a motivation for people to start a business, there is also an element of status. To be an owner of a business is perceived as a status symbol among community members. This perception was also identified during a similar research project in the community (van der Walt and Naude, 2006). Another motivational factor identified was to support the community, which is in accordance with the culture that exists in these communities.

The issue of mutual support amongst community members raises the issue of growth and profitability of small businesses. If the emphasis is more on community support and social responsibility it might hamper the growth and expansion of small businesses. If we want to

stimulate entrepreneurship within the rural community one should perhaps look at other business models like cooperatives to achieve this goal. These types of businesses are more community based businesses and can involve a broader spectrum of individuals. The objective of the cooperative is not only profitable but also provides services to members. This business model could be a means for a rural community to participate more effectively in globalization.

The sources of start up funding vary from money borrowed from friends, from family members and money accumulated from previous jobs. Only one project was funded by the international mining company and that is a sewing project which involved 10 entrepreneurs. There is an absence of loan capital from local banks and one can attribute that to a total lack of security. Banks consider these ventures as very risky. The local municipality focuses more on infrastructure development and development of the agricultural sector.

All the respondents are sole proprietorships. There is also a clear indication that the entrepreneurs find it difficult to stay in business. The lack of business skills as identified during the survey might be the main reason. No financial records were available which relates back to the lack of business skills. The main market for produce is the community. There is no real desire to extend businesses beyond the community borders although it will be difficult to grow within the community over the short term. The high poverty rate (lack of spending power) might be a handicap to keeps existing businesses feasible as well as to sustain a vibrant small business sector.

There is a clear indication that the respondents acknowledge the importance of entrepreneurs to create wealth within the community. The respondents indicated that although there are community members who want to start a business it is very difficult due to a lack of knowledge and finance.

Although the majority of the respondents are positive towards globalization (only three were negative) it is clear that they have a limited knowledge of what the concept means. This total lack of understanding can create an opportunity for exploitation of the so-called poor. Local entrepreneurs with a lack of business skills and relatively low educational levels will find it difficult to maintain themselves against international role players.

## **Community partners**

The international diamond company is operating in the area since 2004. One can consider this as the only globalised activity involving a community in this region. The Magopa community has a stake of 26% in the mining company and it is also the largest employer with between 100 and 200 employees (Mothutsiwa, 2006b).

The company is involved in various social company programs in the Ventersdorp area. This includes the erection of the Magopa Medical Centre, for which it sponsored all building material. The total cost of this project was R161,000. The Magopa community was responsible for the work, creating temporary employment. This was a joint project between local government who sponsored all the equipment as well as the training of the medical staff. The mining company also sponsored 28 computers from Canada for the Magopa School and adult education centre, and is involved in a sewing project where 25 women are trained to make clothes. The Magopa community is paid a 6% gross royalty from the Mountain Ash (Pty) Ltd - a sub-group of Etruscan Resources Inc.

The company is also involved in agricultural projects where capital is made available for crops like maize, sunflower and peanuts. Seven individuals are employed by this project and during harvesting time it increases to between 30 to 60 people. Presently, cattle farming is being developed through a breeding project (Jankowitz, 2003: 2-5). For the year 2006, R275,000 had been granted for this project. Some of the products produced by the agricultural projects are sold back to the communities at subsidised prices for own consumption while others are being sold to local businesses.

The President of the mining company states the company is aware of its social responsibilities and that offering opportunities to the previously disadvantaged in South Africa is one of their priorities (McConnel, 2006). It sees the Magopa community to be self-sustainable in ten to fifteen years from now. Mining is perceived as a vehicle for sustainable development and the community members are seen as hungry for training.

One of the community leaders represents the community at the company and is also the human resources manager. He describes the employment policy at the company as follows: In the two years of existence, Etruscan employed and developed 32 operators from this area and all the



junior managers were trained and are African. Etruscan anticipates to employ and train more women in the diamond mining industry and use the company's skills development plan to increase the employability of those people willing to work and learn. The company also follows a principle where 80% of employees must be from the community (Mohutsiwa, 2006b).

It is clear that the community benefits from the involvement of the international partner.

Considerable financial contribution is made towards the social progress and one would hope that eventually the development of entrepreneurs and the creation of an active business sector would also form an important prerequisite for sustainable development. One can conclude that irrespective of the contribution of the international partner, it is still not a 50-50% partnership.

The relationship between the second international partner, namely the German solidarity group, and Magopa community is important and needs to be presented in the study because it proves to be a special relationship. More specifically, their views on globalization are important here because it can contribute to attitudes and justification of the principle.

Mohutsiwa (2006a:1) states that the Germans have a problem with globalization; because it might imply that certain people try to monopolise the whole world. The WTO is using SA as a bridge, and that everything goes via SA. In this way the WTO controls everything. Duchrow (2006) states that land is life and it can only be life if it is shared equally. Equal sharing is perceived as justice.

It could be noted that the influence of the Germans and the level of complexity of their stance on globalization could possibly result in confusion for the Magopa community. One would base this on the lack of knowledge about globalization, basic business skills, and education, evident in the response of certain community leaders and entrepreneurs.

### **Conclusions: Magopa**

The Magopa community is still extremely poor today and maintains a low standard of living. The natural capital is basically diamonds and agriculture. However, for the last four years both proved insufficient in lifting Magopa out of poverty. The community benefits to a large extent from the income of the diamond operations, although this benefit is derived indirectly in terms of social development projects. So far agriculture seems to make a limited contribution to poverty elimination. As is the case with other land reform projects, the community's people need more than the farming activities and as such they will have to supplement their income with other entrepreneurial activities.

Although much improvement came about through the various social investment projects of the International Etruscan Diamonds company, Magopa is still struggling. Physical or technological capital is limited in the community and economical capital is presented only through sole proprietorships and the diamond mining company. Magopa has not explored to its full extent the inherent human and social capital.

The entrepreneurs in the community are all sole proprietors and can be considered more informal than formal. During the survey entrepreneurs urgently expressed their intense need for financial help to expand their businesses or even to just start properly.

In terms of entrepreneurship the challenge of the community is twofold: firstly, the lack of skills required by new entrepreneurs, and secondly, the limited funds available to establish new businesses or develop business ideas. To be globally competitive in a globalising world local communities need to train their local labour force. Promote the establishment of local companies, ensure that these companies are, to a larger extent, owned by the local people and managed by competent hands; ensure that profits are re-invested at home rather than expatriated. The community leaders and entrepreneurs realise that they need more skills and training to be able to utilize capital and exploit business opportunities. If these challenges are not met it will be difficult for the community to become globally competitive. A big challenge facing the Magopa community, as stated by a community leader (Mothutsiwa, 2006a) is to change people's minds and the biggest mistake government made was just to give to people and not to teach the people how to work for it. This is perhaps one of the big disadvantages of the land resettlement program.

One can conclude and say that the Magopa community is a passive globalized role player and they have no problems with this fact. Although they are open to globalization and perceived it as inevitable, the question can be asked how effectively a poor rural community can participate in globalization if it is still struggling to be economically active. One can perhaps look at the example of Mauritius where they first built up strong human capabilities and once that was established they changed the system to favour exports based on simple labour intensive technologies (Davies, 1998).

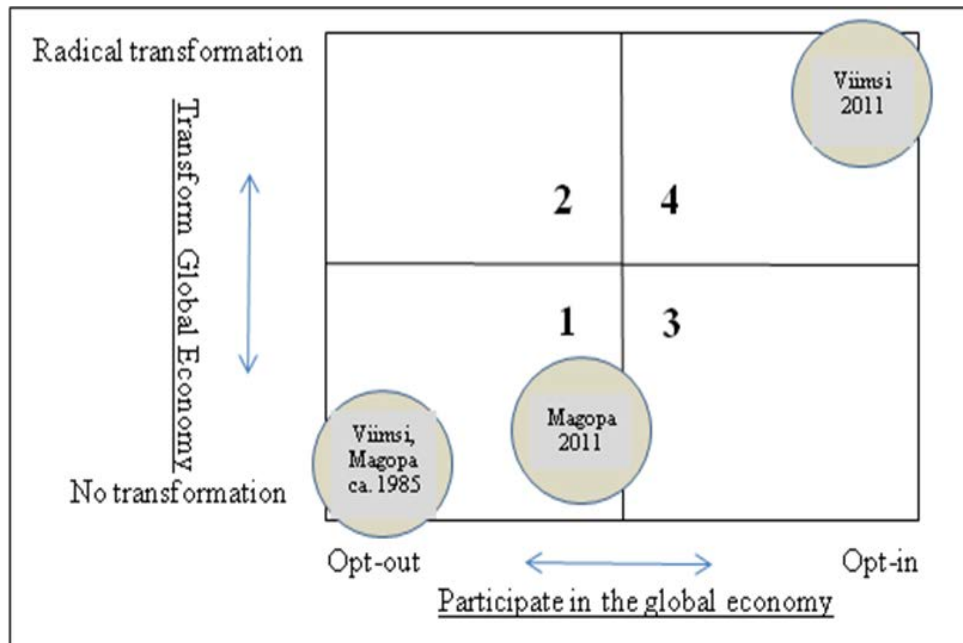
The interaction with international partners currently is more one of a receiver of development aid in exchange for minerals. Due to the lack of education amongst the community members it could easily lead to a situation whereby the community can become a victim of exploitation. It also puts a lot of pressure on the community leaders as well as on local authorities to prevent this from happening. It is the responsibility of local authorities to provide services effectively to improve the general welfare of local communities. Globalization could contribute to local development but it necessitates a partnership between the international role player, the local government and the community (Ballard and Schwella, 2000).

#### **D. COMPARATIVE ANALYSIS**

When using our analytical framework with Viimsi and Magopa, it is clear that one of them (Viimsi) has opened up for a participation in the global economy, while the other one (Magopa) has stayed mostly on the sidelines of global change. Furthermore, the two communities have taken quite a different approach to shaping their own future. Viimsi seems to be much more self-reliant, creating its own opportunities and luck, whereas Magopa is more passive, waiting for good things to happen. As shown in [figure 3](#), our four quadrant graph on global participation and initiative, it appears that Viimsi has travelled from Quadrant 1 to Quadrant 4 in the last 20 years, while Magopa is still close to its starting position in Quadrant 1. As a result of the changes, Viimsi has become wealthy while Magopa is still poor.

Even if one community is much wealthier than the other, this doesn't automatically mean that the other has failed. After all, income is just one of many possible ways to measure success. It is the desires of the population that define success, or the lack thereof. While people in Magopa seem to put less value on modern western lifestyle and income, the level of poverty and unemployment in Magopa is high enough to make it impossible to simply ignore the potential benefits of economic growth to the community. It is exactly here that Viimsi can offer a select few lessons for a poorer community like Magopa.

Figure 3. Globalization and change in Viimsi and Magopa



Before outlining the usable lessons from Viimsi’s experience, one should certainly note some of the important pre-change advantages that Viimsi had. First, even at the start of the change from socialism to capitalism Viimsi had an income level well above Magopa. Also, the education system in Estonia, as well as the entire Soviet Union, was regarded to be fairly well functioning. Third, Viimsi certainly benefited from its geographic location of being close to a domestic economic dynamo, Tallinn, and wealthy neighbors in Finland and Sweden. Finally, having a long shoreline of the Baltic Sea helped to make the community attractive as a place of residence. Despite all the advantages, we do not believe becoming the wealthiest community in Estonia was Viimsi’s pre-determined destiny. In reality, many things could have gone wrong for Viimsi, but did not. What the people of Viimsi did to make their community a success is as much a story of the visible as well as the invisible attributes, the latter showing in the stakeholder interactions and the overall social fabric of the community. While it will be hard, no doubt, to recreate some of the attributes of Viimsi in a different location and time, some others are more universal in nature, making their replication less dependent on the particular circumstances.

## **Lesson 1: Goals and examples**

What people in Viimsi in the early 1990s wanted seemed clear. They were ready to put their newly-released economic and political freedoms into action. At long last, having an opportunity to take one's idea and try it out in real life was a valuable inspiration. But a strong additional motivation was also provided by the desire to reach the material level of well-being that was clearly present in the neighboring countries, particularly Finland and Sweden. Via the newly freed media and tourism people quickly learned what is possible in a global world. The Estonians, Viimsi included, had the advantage of knowing that just 50 years earlier their incomes had been on par with the neighbors. While it may be tempting to some people to be fatalistic about income growth, the lesson in this case was unmistakable, and still in recent memory. The difference in income between Viimsi and its foreign neighbors had little to do with people and destiny, and all to do with the politico-economic system that was imposed on Estonia after the Second World War. Viimsians knew what they wanted and had powerful examples in their wealthy neighbors as reference points.

In the case of Magopa, the goal of the community is not clearly articulated. In terms of our globalization framework, for instance, Viimsi moved from Quadrant 1 to 4, whereas Magopa has not moved much, nor is it clear how much, if at all, it wants to move. In Viimsi's case the wish was to use entrepreneurship and globalization as tools to reach high incomes. In Magopa it may well be that the population would want have a different goal, for instance, to preserve much of the traditional setting and use small scale agriculture as the anchor for the community. Then again, it appears that the goal is not clearly set. That being the case, when the community is adrift, it's hard to draft a coherent development plan for the future. The next step for Magopa should be to bring all the stakeholders together, and see if a common goal is reachable. An agreed goal in place will make it easier for the stakeholders to adjust their actions accordingly. Having a development reference point can also be valuable. Given the type of a community Magopa wants to become, they should look around for positive examples of nearby communities home or abroad that have been successful with the goal. One would first identify communities that seem to share the same basic characteristics, and then identify those that have been successful. Not only should one try to learn as much as possible from their successes (and missteps), but also to use their rise as a powerful learning tool of how to do it, and also to use them as a reminder that the goal can be reached.

## **Lesson 2: Means to goals**

Not only was there a clear development goal in Viimsi, but the community stakeholders also came up with an effective plan for how reach it. Three ideas in particular were in the absolute core as drivers of the development.

First, it was agreed that private initiative in the form of entrepreneurship was critical for transforming the community. The general community attitude as a result was highly supportive of private initiative, the understanding being that not only does the individual reap the benefits of the action, but that there will also be a highly positive spillover to the rest of the community. Under this mindset of social approval, becoming an entrepreneur is much easier.

Second, government was transformed from a controller to an enabler. Rather than stipulating rules for a wide range of activities, the local government created an environment that re-evaluated the rules with entrepreneurial creation and flourishing in mind. Rather than standing in the way of private initiative, the government was probing of ways to further enable individuals to put their ideas into action.

Third, the stakeholders acknowledged that the rest of the world had a lot of knowledge that was not taken advantage of in the community. Therefore, rather than discounting globalization, it was agreed that participation in the global world had more benefits than costs to the community. The critical part here was, however, the understanding that not everyone in the community will benefit from the increased interaction with foreigners. As a result, there was also an understanding that the stakeholders would craft protective systems to take care of those who fall. This approach made it less risky for individuals to support globalization.

In Magopa, as everywhere else, having more entrepreneurs would have a highly positive effect on incomes. Yet it is another story how well entrepreneurship fits to its idea of development. First of all, the community goal is not clearly articulated. Second, the community seems to have highly mixed feelings about entrepreneurs. Some see entrepreneurial activity as desirable, while others are concerned that business owners will only exploit the community. The presence of the German anti-globalization NGO certainly plays strongly into this debate. Under these mixed messages it is hard to become an entrepreneur in Magopa, or attract outsiders to bring their knowledge and capital to the community. This is especially true given that the community

leaders also seem ambivalent about the subject. Not surprisingly, the enterprise per capita ratio in Magopa is about one tenth of that in Viimsi.

Magopa does have a few particular strengths that it could take an advantage of. As a result of the land reform, there is an abundant supply of land for the community members. Learning modern agricultural techniques, the current low yields could be much improved. Also, given the high unemployment rate, there is an excess supply of labor available. Furthermore, an additional asset for the community is the people that have left Magopa and are now sending remittances home. Finally, the community seems to have a relatively high level of collective solidarity, just as Viimsi does, having a potential safety net in place for individuals against unforeseen events. The question is how to make Magopa more attractive to its own people and returning migrants. In Viimsi the change started by coming up with a stakeholder approved direction for the community, and then adjusting government policies to foster that goal. After that, people used their ingenuity to find what could be learned from the rest of the world. While people in Viimsi had an educational advantage, Magopa does have an adult education center that could become an important tool in this learning process. Various government agencies in South Africa also have known bureaucratic capabilities that could be used to increase Magopa's knowledge base. Many multilateral development agencies could also become valuable partners in providing new know-how and capital to the community. A high level of community spirit can be very valuable in crafting formal and informal ways to take care of individuals who are negatively affected in their encounters with the outside world.

### **Lesson 3: The role of government**

Viimsi was part of a socialist planned economy for almost 50 years. When the change came in 1991, the community quickly shed the remnants of the old structure from its system. The economic reason for this was simple: socialist planning failed to provide for income growth at rates that people considered proper. The planners of old represented a government that in its nature was a controller, an antithesis for private initiative. Furthermore, comprehensive controlling and planning could simply not co-exist with empowered individuals, thus the individual rights were severely suppressed. The intense negative incentives on work effort and innovation from this type of government are well-known. In the case of Viimsi, people learned

over generations what a controlling government looks like and what its effects on life are, and chose to abandon it as soon as politically possible.

In Magopa it is nearly not as clear what kind of a government people want. It appears the eight person governance committee is in the middle of all community action. Using the terminology from the previous paragraph, the governance committee seems to be more of a controller than an enabler of individual initiative. Unfortunately, a controller government is unlikely to unleash an entrepreneurial renaissance (if that's the goal) in the community: its very nature is in direct contradiction of individual freedoms and private initiative. What is somewhat alarming, it appears that over the decades of apartheid, many people in Magopa have become dependent on central authority, in essence shifting the responsibility for change to the government. Thus, the controller government, in the absence of visible alternatives, has become the default preference of the people.

To change away from the default choice is no doubt hard, and would require strong leadership from the current community leaders. As an alternative to the *status quo*, the governance committee could decide to become an enabler, moving itself from the center to the sidelines. This doesn't mean that it would have to do less than it did in the past, just different things. Notably, it would help in distilling and bringing to the fore the kind of community environment that is consistent with Magopa's goals, and then let people's own drive take over the charge. If the environment is conducive to private initiative, people will respond, just as they did in Viimsi. Furthermore, if part of the goal is to attract outside capital and expertise, then the business environment should be appreciative of business, providing all firms proper protection against change-in-the-wind policies and capital appropriation, and doing away with the old rhetoric of exploitation. Policies known to be consistent with good business environment are well-documented in the Economic Freedom of the World subindices of the *Fraser Institute* in Canada.

### **Final word**

Our study focused on the development experience of two small communities, Viimsi in Estonia and Magopa in South Africa. Twenty years ago both were poor, since then Viimsi has become wealthy, while Magopa remains poor. We do not believe becoming the wealthiest community in Estonia was Viimsi's pre-determined destiny. What people of Viimsi did to make their community a success is as much a story of the visible as the invisible attributes. In our study we



delve deep into the interactions among various community stakeholder groups in an attempt to describe the social fabric of these two communities, and use this to explain why Viimsi was able to take an advantage of globalization, even as Magopa was not. The stakeholder groups studied include corporations, entrepreneurs, government at various levels, and NGOs. While it will be hard, no doubt, to recreate some of the attributes of Viimsi in a different location and time, some of the lessons we uncovered from our study are universal in nature, making them potentially usable for other small communities trying to find their way in the global world.

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# **CORPORATE SOCIAL RESPONSIBILITY PYRAMID APPLIED TO PRIVATE GAME RESERVES IN THE EASTERN CAPE PROVINCE**

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Key Words: Corporate social responsibility, private game reserves, Carroll's Pyramid

## **CORPORATE SOCIAL RESPONSIBILITY PYRAMID APPLIED TO PRIVATE GAME RESERVES IN THE EASTERN CAPE PROVINCE**

### **ABSTRACT (150 words)**

This study investigates the current state of practice of corporate social responsibility (CSR) in the ecotourism based private game reserve (PGR) industry in the Eastern Cape Province of South Africa. It is based on Carroll's (1979; 1991) CSR pyramid, which is made up of economic, legal, ethical and philanthropic responsibilities. Given the context of this research, a fifth responsibility, environmental responsibilities, was added to the pyramid. Within the phenomenological research paradigm, a multiple case study approach was used in this research, with the unit of analysis being the Indalo group consisting of 12 ecotourism-based PGRs. Data were collected by means of in-depth interviews, focus interviews, and a structured five-point Likert scale questionnaire. The study found that the current practice at the Indalo group is geared towards a strategic, long-term approach to CSR which supports the development of a "sustainable organisation" and which requires the fifth responsibility, namely environmental, to be included in the CSR pyramid.

### **INTRODUCTION**

Ecotourism is currently regarded as the most popular of the tourist attractions (SAInfo, 2009:1) and has been defined as "responsible travel to natural areas that conserves the environment and improves the well-being of local people" (The International Ecotourism Society (TIES), 2010:1). In this regard South Africa is home to renowned national parks as well as a number of ecotourism-based, private game reserves (PGRs) all offering excellent wildlife and bird watching, as well as community participation, while aiming to conserve the biologically diverse environment in which they operate (SAInfo, 2009:1). In its widest sense, a game reserve implies all activities on "a large area of land where birds or animals are kept in protected conditions in the wild either for conservation purposes or to be hunted for sport" (Encarta, 2008:1). More specifically, ecotourism-based PGRs are privately owned natural areas where tourism serves as the primary business activity, rather than hunting or some other land use (Sims-Castely, Kerley, Geach and Langholz, 2005:6), and where utilisation is tourism orientated and non-consumptive.

The ecotourism-based PGRs contribute significantly to the Eastern Cape economy, with the reserves contributing in excess of \$11.3 million to the regional economy per year (Sims-Castely *et al.*, 2005:6). Game reserves in general are recognised as one of the most important and fastest growing economic activities in the Eastern Cape Province (Van Niekerk, 2003: 1; Van Niekerk, 2006). Given the emerging importance of game reserves as well as the ecotourism-based PGRs in this province, from both an economic and tourism perspective, long-term sustainability has become a critical consideration. Private protected areas in particular have recently emerged as innovative and powerful engines for sustainable development (De Alessi, 2005; Krug, 2001; Langholz and Lassoie, 2001, cited in Langholz and Kerley, 2006:2).

“Sustainable development” has been defined as development that meets the needs of the present while protecting and enhancing opportunities for the future (Mirchandani and Ikerd, 2008:40; United Nations General Assembly, 1987). Sustainable development is a concept that is closely related to corporate social responsibility (CSR). Corporate social responsibility is “the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large” (The World Business Council for Sustainable Development, 2009:1).

It has been suggested that privately owned conserved areas can engage in CSR initiatives by protecting biodiversity, succeeding financially, and contributing to social upliftment (Mitchell, 2006; Kramer, Langholz and Salafsky, 2002, cited in Langholz and Kerley, 2006:2). In the Eastern Cape it is accepted that its ecotourism-based PGRs have both the means and the skills to play a major role in social upliftment by engaging in CSR activities. Despite the unemployment rate of 25.2% in the area (National Development Agency, 2009:1), the province remains the second major beneficiary of domestic tourism (Ministry of Tourism, 2009). For this reason the ecotourism industry in the Eastern Cape has the potential to contribute towards combating the province’s high unemployment rate (National Development Agency, 2009:1). The importance of this research is further exemplified by Langholz and Kerley (2006:2) who contend that information regarding the contribution that private protected areas, in particular ecotourism-based PGRs, make through socially responsible initiatives in the Eastern Cape is acute.



## **RESEARCH AIM AND OBJECTIVES**

Given the economic, social and environmental importance of ecotourism-based PGRs in South Africa and, in particular the Eastern Cape Province, the primary aim of this paper is to present an overview of the involvement of ecotourism-based PGRs who are members of the Association of Eastern Cape Private Game Reserves (Indalo group) in the province with regard to each of the four corporate social responsibilities according to Carroll's pyramid, namely economic, legal, ethical, and philanthropic perspectives. This pyramid is a widely recognised framework and has been used to determine the CSR activities in the mining industry (Viviers and Boudler, 2008), as well as in the Small, Medium and Micro Enterprise (SMME) industry in South Africa (Viviers and Venter, 2005). However it has not yet been applied in the tourism industry in South Africa.

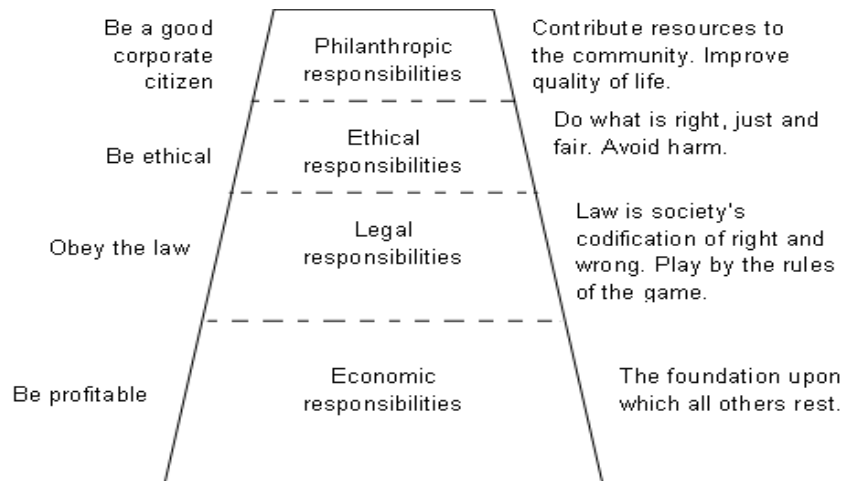
More specifically, the primary aims of this research are to:

- describe the four types of CSR according to Carroll's pyramid, namely the economic, legal, ethical and philanthropic.
- assess and evaluate the involvement of ecotourism- based PGRs in the Eastern Cape in each of the four responsibilities.
- provide pertinent conclusions and recommendations with regard to CSR strategies in the ecotourism-based PGR industry in the Eastern Cape .

## **CARROLL'S PYRAMID OF CORPORATE SOCIAL RESPONSIBILITY**

Carroll (1991: 104) identified four components of social responsibilities that constitute total CSR, namely economic, legal, ethical and philanthropic responsibilities, as shown in Figure 1.

Figure 1: The pyramid of Corporate Social Responsibility



Source: Carroll (1991: 42)

All of the CSR components as shown in Figure 1, taken together, constitute a holistic viewpoint of CSR (Carroll, 1991:42). Even though the components shown in Figure 1 have been treated as separate concepts for discussion purposes in the following Section, they are not mutually exclusive (Carroll, 1991:42).

Economic responsibilities are based on the notion that organisations have a responsibility to produce goods and services and to sell them at a profit (Carroll, 1979:500). Profits ensure the continuation and growth of the organisation as well as providing an adequate reward to investors for the risk they are taking (Carroll and Buchholtz, 2000:33). According to Carroll (1979:500), economic responsibilities form the base of the pyramid, as shown in Figure 1, as they are the first and foremost responsibility of an organisation upon which the other CSR components depend.

“Legal responsibilities” refer to the obligation of an organisation to comply with the laws and regulations promulgated by federal, state and local governments (Carroll, 1991:41). Legal responsibilities reflect a view of codified ethics as they embody basic notions of fair operations (Carroll, 1991:41). They are represented as the second layer of the pyramid as legal responsibilities are seen to coexist with economic responsibilities in a free enterprise system (Carroll, 1991: 41).

The third layer in Figure 1 reflects the ethical responsibilities. “Ethics” refers to a set of values and rules that define right and wrong behaviour (Hellriegel et al., 2008:108). Ethics includes distinguishing between fact and belief and defining issues in moral terms, as well as applying moral principles to a situation (Hellriegel et al., 2008:108). Ethical responsibilities are closely related to legal responsibilities as the former are a driving force in the creation of the latter (Carroll, 1991: 41). This forms the major difference between philanthropic and ethical responsibilities, in that the former are more voluntary in nature (Carroll, 1991:42).

Philanthropic responsibilities are reflected in the last layer of the pyramid as shown in Figure 1. The philanthropic responsibilities of an organisation involve being a good corporate citizen, and include actively engaging in activities or programmes to promote human welfare or goodwill (Carroll, 1991:42). Examples of philanthropy include contributions in the form of financial resources or time, such as involvement in the arts, education or the community (Carroll, 1991:42). While communities and society in general prefer that organisations be engaged in philanthropic activities, it is not regarded as unethical if organisations do not attain the desired level (Carroll, 1991:42).

To summarise, Carroll’s pyramid of CSR indicates that socially responsible organisations should strive to make a profit, obey the law, be ethical, and be a sustainable corporate citizen (Carroll, 1991). This constitutes a leading paradigm of CSR in the social issues area of the management field (Shwartz and Carroll, 2003:504). A discussion of each of the four responsibilities in the context of ecotourism-based PGRs will be discussed in the next Section.

### **Economic responsibilities of ecotourism based PGRs**

In terms of the economic multipliers (EM) of ecotourism-based PGRs, the economic contributions (Ashley *et al.*, 2005a:2; Nelson, 2003 cited in Visser 2005:38) are as follows:

- Establish local business linkages;
- Generate investment and income;
- Produce safe products and services;
- Create jobs;
- Invest in human capital;
- Spread international business standards;

- Support technology/knowledge transfer; and
- Build physical infrastructure.

The economic multipliers of ecotourism-based PGRs indicate a different way of doing business, through the adjustment of operating practice in order to achieve the PGR's commercial goals while at the same time ensuring that more local impact is delivered through the economic multipliers (Ashley *et al.*, 2005a:1). The establishment of the local linkages harnesses the core competencies of the ecotourism-based PGR in order to create and maintain sustainable relationships with the local community (Ashley *et al.*, 2005a:1). An increasing number of tourism organisations, including ecotourism-based PGRs, are adopting some form of linkage by means of a partnership, joint venture or contractual agreement with local communities (Ashley, Poultney, Haysom, McNab and Harris, 2005b:1).

These linkages give rise to the additional seven economic multipliers, and aid in the delivery of local economic and social benefits faster, at a higher quality, to a broader number of people or more sustainably, than could be achieved by acting alone or through conventional, contractual or consultative relationships (Ashley *et al.*, 2005b:3). Each economic multiplier will be discussed in the following Section.

Local linkages and partnerships can help get access to financial and non-financial resources which in turn generate additional investment and income (Ashley *et al.*, 2005b:4). Partnerships can be instrumental in attracting financially responsible or Black Economic Empowerment (BEE) investment (Ashley *et al.*, 2005b:3). For example, the Halcyon Group's involvement in local partnerships and linkages was a feature that attracted their new owners, Akani Leisure Investments, who emphasise responsible business behaviour in their business contracts (Ashley *et al.*, 2005b:3). Furthermore, investment and income can aid in the development of physical and institutional infrastructure, which in turn has the potential to multiply the benefits to the local economy (Ashley *et al.*, 2005b:3). This may assist local communities to have access to facilities that previously did not exist, and allow for a better lifestyle (Ashley and Elliott, 2003:5).

Local linkages and partnerships also bring training, expertise, exposure, and the potential to enrich the destination (Ashley *et al.*, 2005b:6) as jobs are created, and new opportunities for

training and promotion arise. Training allows the organisation to benefit markedly as it encourages employees to generate knowledge and add to their own knowledge (Swanepoel, Erasmus, Van Wyk and Schenk, 2003: 450). In addition, an investment in employees and surrounding communities is seen as a means of engendering commitment, rather than as a means of containing costs and imbuing loyalty (Swanepoel *et al.*, 2003:185). If the right environment is created, employees as well as surrounding communities will support the organisation and stay committed to it (Swanepoel *et al.*, 2003:185).

In addition, the increase in human capital allows for new ideas, thereby assisting in the development of new tourism products based on local skills and resources (Economic multiplier „d“) (Ashley *et al.*, 2005b:4). In a tourism destination that thrives on high quality, local cultural products will provide many opportunities for both the local community and economic growth (Ashley *et al.*, 2005c:2).

In addition, involvement of the local community in the business boosts staff morale, which results in improved customer service and customer satisfaction, thereby bringing the business in line with international standards (Ashley *et al.*, 2005b:4). This translates into return guests as well as new domestic and foreign tourists. For example, at Mbotyi River Lodge, the positive attitude of local staff translates directly into improved service and customer satisfaction (Ashley *et al.*, 2005b:4).

Human resources (HR) play a key role in making CSR work, as well as ensuring financial viability. CSR without HR runs the risk of being dismissed as public relations or shallow “window-dressing” (Sharma, Sharma and Devi, 2009:212). Therefore the way an organisation, and likewise PGRs, treats its employee’s influences its willingness to accept its wider responsibilities and contributes directly to its financial viability (Sharma *et al.*, 2009:211). CSR needs to be embedded in an organisation’s culture to make a change to actions and attitudes, and the support of the top team is critical to the success of both the CSR agenda and the financial output of the organisation (Sharma *et al.*, 2009:1). Furthermore, organisations, as well as PGRs, are expected to pursue their economic goals within the framework of the law (Carroll, 1991:41). For this reason legal responsibilities are depicted in the next layer of the framework.

## **Legal responsibilities of ecotourism-based PGRs**

South Africa has the most extensive tourism policy framework in the African continent (Sustainable Tourism Network, 2010:1). Policy focuses on tourism development, promotion, responsible tourism development, and the broad-based economic empowerment of historically disadvantaged people (Sustainable Tourism Network, 2010:1). The following documents as identified by the Sustainable Tourism Network (2010:1) guide South African tourism development:

- White Paper: Development & Promotion of Tourism in South Africa, 1996
- The National Responsible Tourism Guidelines
- Tourism Growth Strategy, 2001
- National Framework for Sustainable Development
- National Broad-Based Black Economic Empowerment Act (BBBEE), 2001; and the
- Tourism Code (previously the Tourism BBBEE Charter and Scorecard), 2008.

The above documents are supplemented by various policy instruments, including legislation regulating labour relations, working conditions and skills development, namely the Employment Equity Act No. 55 of 1998, Skills Development Act No. 97 of 1998, Industry Charters, and the Broad Based Black Economic Empowerment Act No. 53 of 2003 (BBBEE). In order to harmonise the different sets of criteria and policies as described above, the Department of Environmental Affairs and Tourism has focused on the development of National Minimum Standards for Responsible Tourism (NMSRT), as well as a national accreditation scheme for tourism certification programmes (Sustainable Tourism Network, 2010:1). The NMSRT is currently being formulated, and will be published for comment in late 2010. The NMSRT is primarily based on the Global Sustainable Tourism Criteria and National Responsible Tourism Guidelines (Sustainable Tourism Network, 2010:1).

Ethical responsibilities are closely related to legal responsibilities as the former are a driving force in the creation of the latter (Carroll, 1991: 41). For this reason ethical responsibilities, depicted in the next layer of the framework, will now be discussed.

## **Ethical responsibilities of ecotourism based PGRs**

With regard to ecotourism-based PGRs, Moisander, Makinen and Garcia-Rosell (2007:5) identify four perspectives of the ethical framework applied to ecotourism, namely the organisation, welfare of society, good business life, and fair business. These perspectives and their relation to Carroll's five characteristics of ethical responsibilities are outlined below.

The organisational perspective focuses mainly on the ecotourism enterprise and on maximising its self-interest in the long term (Moisander *et al.*, 2007:6). In this regard the interest of the organisation coincides with the interest of others, therefore by protecting the natural environment and considering the local community and other marketplace actors, the ecotourism organisation is also creating benefits for itself (Moisander *et al.*, 2007:6).

The "welfare of society" perspective focuses on the promotion of welfare in a community, and the achievement of economic benefits for a group of people, namely the community or greater region (Moisander *et al.*, 2007:6). Instrumental value is attributed to the natural environment as it provides pleasure and satisfaction to different marketplace actors, including the surrounding community, as well as tourists (Moisander *et al.*, 2007:6).

Rather than concentrating on the organisation or society, the "good business life" perspective is based on the character of the entrepreneurs, their personal values, norms and beliefs (Moisander *et al.*, 2007:6). The motivation for becoming an ecotourism entrepreneur is found in the personal values, norms and beliefs of business owners (Moisander *et al.*, 2007:6).

The "fair business" perspective focuses on the promotion of fairness and justice throughout the organisation (Moisander *et al.*, 2007:6). Ecotourism is regarded as a business approach that respects humans and nature. As stated by Carroll (1991:40), corporate integrity and ethical behaviour go beyond mere compliance with laws and regulations.

Hall and Brown (2008:215) identify ethical benchmarking criteria for tourism organisations, which are relevant in the ecotourism-based PGR industry. The criteria, that include access and equity considerations, client rights, employees' rights, human rights, exploitation of developing countries, and environmental and animal welfare, will not be further discussed in this paper.

Hall and Brown (2008:217) point out that “there remain many shortcomings and inconsistencies that can have a negative effect on the welfare of tourism workers, destination residents and environments, and tourists themselves.” This is the case in South Africa, where only a small portion of the tourism industry has adopted notions of CSR and ethical codes of behaviour and conduct (DEAT, 1996:1). In recent years, however, the tourism industry has increased its involvement in CSR by means of engagement in philanthropic responsibilities.

### **Philanthropic responsibilities of ecotourism-based PGRs**

In South Africa the view that CSR is primarily philanthropy is the result of how things were structured in the pre-democracy era, in the sense that organisations thought that they needed to support and donate to worthy causes separately from the core business functions of the company (Hamann, 2006:188). Although this view has changed, organisations in South Africa still engage in philanthropic activities and projects. The projects supported may have a direct or indirect link with the organisation. For example, such a project may be of benefit to the community, to families of staff or to future staff, and in addition for tourism organisations it may be an initiative that relates to the tourism experience, such as environmental appreciation, language training, or infrastructure enhancement (Ashley and Hayson, 2005:4).

It appears that in the tourism industry philanthropic responsibilities by means of community projects have been the norm. However if CSR is to make a substantial impact in the long term to economic and social development, then organisations and PGRs need to move beyond donations to adapted business practice (Ashley and Hayson, 2005:5). “Adapting business practice” means changing one or more elements of normal organisational operations so that the organisational function is still fulfilled in a way that improves the triple bottom-line (Ashley and Hayson, 2005:5). In addition to its strong philanthropic objectives, this approach makes sense commercially in the long term (Ashley and Hayson, 2005:4).

## **RESEARCH METHODOLOGY**

A case study approach, located within the phenomenological research paradigm, has been used for this research (Collis and Hussey, 2003:66). The unit of analysis is the Indalo group, the Association of Eastern Cape Private Game Reserves, which is made up of 12 ecotourism-based PGRs. As the current research is focused on eight of the 12 PGRs, a multiple case



study approach was used. A combination of a descriptive and an illustrative case study design was used in order to cover the depth and scope of the case under study as well as to illustrate new and possibly innovative practices adopted by the Indalo group (Collis and Hussey, 2003:68).

Data were collected by means of in-depth interviews with the managers of each reserve as well as focus interviews with administrative employees at each of the eight member reserves of the Indalo group. The structure of the in-depth and focus interviews included semi-structured questions pertaining to personal data, general questions about the game reserves, and research questions pertaining to the economic, legal, ethical, and philanthropic aspects of CSR. The formulation of these questions drew on previous research by Aupperle, Carroll and Hatfield (1985). The Indalo group Chairperson agreed to facilitate the data collection process by establishing the initial contact between the PGR managers and the researcher. The Indalo group members indicated their willingness to voluntarily participate in this research.

The data were analysed using content analysis, which is “a research technique for making replicable and valid inferences from texts (or other meaningful matter) to the contexts of their use” (Krippendorff, 2004:18). The analysis was supported by NVivo Version (V) 8, a qualitative software programme that aids in examining words or phrases in a wide range of texts and speech (QSR International Pty Ltd. Version 8, 2009). In coding the data, a priori and grounded codes were used.

The a priori codes that were identified from the literature review as well as questions and topics in the interview schedule, were as follows:

- Economic responsibilities
- Legal responsibilities
- Ethical responsibilities
- Philanthropic responsibilities

Additional grounded codes may emerge from the data when a researcher puts aside his/her prejudices, presuppositions and previous knowledge of the subject area, and concentrates instead on finding new themes in the data (Gibbs and Taylor, 2005:1). The grounded codes identified in the data were as follows:

- Empowerment through CSR
- Environmental education
- The guest experience

In assessing the quality of the analysis, the four criteria for reliability as identified by Lincoln and Guba (1985, cited in Golafshani, 2003:602) were used, namely confirmability, credibility, transferability, and trustworthiness. Respondent validity was obtained, which increased the validity of the conclusions drawn based on the qualitative data analysis (Collis and Hussey, 2003:279). Collis and Hussey (2003:279) indicate that respondent validity involves discussing the research findings with those who have participated in the study, to obtain their reactions and analysis. In order to achieve respondent validation, the researcher worked with a CSR consultant of the Indalo group, and validated the results with the 2010 Indalo Chairman. The aim of respondent validation is to give the researcher greater confidence in the validity of the conclusions drawn (Collis and Hussey, 2003:279). The researcher aimed to strengthen both the reliability and validity of the research through the use of triangulation in method and data gathering, as well as addressing the previously mentioned concepts pertaining to reliability.

Ethical research considerations such as voluntary participation, confidentiality, non-disclosure, anonymity and the use of research data were adhered to by the researcher. The research proposal and the ethical research aspects were discussed with and approved by the Chairperson of the Indalo group. The research complied with all ethical requirements of the Department of Management Human Research Ethics Committee.

## **FINDINGS AND CONCLUSIONS**

The main findings and conclusions are presented according to the primary research aims, as stated in this paper, namely to assess and evaluate the involvement of ecotourism-based PGRs in the Eastern Cape Province in each of the four responsibilities comprising CSR, namely economic, legal, ethical and philanthropic responsibilities.

## **Economic responsibilities**

In order to enhance similar ecotourism-based PGR involvement with economic development, the current research provides strategies implemented by the Indalo group, from which similar ecotourism-based PGRs could learn. These strategies are as follows:

- Maintaining a strong competitive position by managing those aspects of the organisation that contribute significantly to achieving a competitive edge. The aspects of importance in achieving a competitive advantage, as promulgated in this research, pertain to marketing and wildlife, as well as ensuring a high-quality ecotourism service.
- Establishing local linkages that harness the core competencies of the reserve which lead to economic multipliers that allow for widespread economic development. Local linkages, as well as the resulting economic multipliers at the Indalo group are as follows:
  - Provision of jobs
  - Provision of training programmes and resources that allow for skills development
  - Provision of various products and services from the local communities to the reserves
  - Provision of physical infrastructure
  - Ensuring communication between parties involved in the local linkage to guarantee overall quality in the goods and services provided and success of the established local linkage.

In terms of the economic responsibilities, the strategies employed by the Indalo group are aimed towards maintaining a competitive advantage as well as ensuring widespread local economic development. Marketing, wildlife, and a high quality product were recognised as essential to ensure a competitive advantage, as well as an increase in revenue. Based on the findings, it can be concluded that an increase in revenue will ensure that an organisation has both the means and resources to actively engage in CSR activities as suggested by Langholz and Kerley (2006:2).

The findings indicate active involvement on the part of the Indalo group in contributing to local economic development. This involvement suggests that the key to unlocking widespread local economic development is the establishment of local linkages which allow for the creation and maintenance of sustainable relationships with the local community. Local linkages as described by Ashley et al., (2005b:3) aid in the faster delivery of higher quality

local economic and social benefits to a broader number of people, or more sustainably than could be achieved by acting alone or through contractual relationships.

A key aspect in maintaining local linkages, as found in this research, is communication. Communication in the reserves takes place on a regular basis because of the open-door policy that managers have with their employees. Managers also ensure communication with surrounding communities by means of the local linkages formed between them. Communication aids in the nurturing of the environment of “continuous learning” by allowing both parties of the local linkage to learn from each other and improve their skills.

Based on the findings of this research, it can be concluded that the economic responsibilities, if managed well, are key to unlocking the CSR potential of a reserve, as well as ensuring widespread economic development.

### **Legal and ethical responsibilities**

The main finding regarding legal and ethical responsibilities is that despite the extensive tourism policy framework available at both the national and international levels (Sustainable Tourism Network, 2010:1), the Indalo group managers are not up to date with policy details, and, in some instances, with policy existence. Despite the limited use of tourism policies, the Indalo group is active in the following legal areas which provide insight into the ethical responsibilities of the Indalo group:

- **Broad Based Black Economic Empowerment (BBBEE):**  
Although BBBEE scorecards are used, their application is on an ad hoc basis, with the Indalo group’s preference to focus on their own employees in developing their career paths.
- **The Occupational Health and Safety Act Number (No.) 181 of 1993:**  
In terms of health and safety, the reserve managers employ various measures to ensure employees remain healthy and productive, over and above the services provided by government.
- **Skills Development Act No. 97 of 1998:**

Skills development at the Indalo group PGRs takes place through numerous training programmes provided for employees and surrounding communities.

It was found that despite the limited use of tourism policies, the managers of the reserves have been instrumental in cultivating their own legal culture of CSR based on their experience in the tourism industry and their ethical stances.

The aspect of “empowerment” is further highlighted by the Indalo group’s efforts in encouraging employees to take charge of their health and well-being, as well as their responsibilities in the reserves. In terms of health, the Indalo member reserves are dedicated towards educating employees and ensuring they remain healthy and productive, as well as increasing the awareness of HIV/AIDS through various initiatives employed at the reserves. To further empower employees, they are encouraged to resolve a grievance informally before undertaking the steps in a grievance procedure. The open communication policy aids in the effective resolving of grievances, as employees feel comfortable in communicating with each other as well as their managers.

Despite the well-intentioned efforts of the Indalo group in promoting a legal and ethical culture, it was found that there is only a limited use of formal ethical codes of behaviour and conduct. The researcher attributes the lack of adoption of formal codes of ethics to the lack of knowledge with regard to tourism policies as well as the cultivating of an open culture whereby employees understand the underlying ethical code of conduct. In this regard a formal code of ethics is important, as it would combine the diverse values and ethical approaches of individuals in an organisation to ensure fairness and consistency (Hellriegel et al., 2008:128).

It can thus be concluded that tourism policies both at the national and international level have not aided in the development of a CSR agenda of the Indalo group. Managers of the member reserves rely on their own ethical stances in cultivating their own legal culture. The adoption of a formal code of ethics by the Indalo group is recommended in the recommendations section.

## **Philanthropic Responsibilities**

The following strategies as implemented by the Indalo group could be considered by similar ecotourism based PGRs in order to increase their involvement in philanthropic responsibilities:

- Sponsoring of extramural activities to aid in enhancing the employees' and communities' quality of life.
- Sponsoring of various educational programmes.
- Involving guests in the traditions of the reserve and the reserves' employees by means of voluntary participation in various cultural and environmental activities (termed the "guest experience").

In terms of the philanthropic responsibilities, the guest experience emerged as a key aspect and innovative educational tool in ensuring the involvement of guests in philanthropic activities. The guest experience is a means of creating awareness of the social, political and environmental concerns of the region.

The philanthropic responsibility strategies employed by the Indalo group are aimed towards building pride and confidence amongst employees and the surrounding communities as well as contributing towards increasing the general quality of life. Although the findings in this research suggest that the sponsorship of extramural and educational activities has direct benefits for both the Indalo group and its surrounding communities, indirect benefits also arise. The indirect benefits include reputation enhancement and marketing appeal, as suggested by Ashley and Hayson (2004:4). The direct benefits of the Indalo group engaging in philanthropic responsibilities are improvement of the triple bottom-line. This could be attributed to employees being attracted to socially responsible organisations and being motivated by their involvement in activities that aid surrounding communities, as suggested by Hellriegel et al., (2008:107). The nature of the philanthropic responsibilities of the Indalo group is strategic rather than purely altruistic.

It was found that the strategic nature of the philanthropic responsibilities of the Indalo group contribute to their adapting of business practice. It can thus be concluded, based on the findings in this research, that long-term strategic philanthropic activities allow for direct and indirect benefits to all parties involved.

## **Environmental responsibility**

Based on additional insights gained during the interviews, a fifth responsibility concerning environmental responsibilities has been added to Carroll's (1991) pyramid of CSR. Adding environmental responsibilities as the new foundation of the pyramid illustrates that all the other responsibilities rely on the processes the natural environment offers. It is therefore essential that organisations engaged in CSR activities ensure a high level of environmental quality (Superti, 2005:18).

In terms of environmental responsibilities, the strategies employed by the Indalo group are aligned with the Global Sustainable Tourism Criteria in minimising the impact on the environment. Consequently it can be concluded that the Indalo group is committed to minimising their impact on the environment through initiatives aimed at conserving the ecosystem, biodiversity and landscapes as well as conserving resources and reducing pollution. In addition resource conservation and pollution reduction are emphasised in every facet of the organisation. In this regard it can be further concluded that the Indalo group members recognise that the ecotourism business relies on the natural environment to remain successful, therefore the environment should be kept intact and relatively pristine in state (Sesega, 2001:13), and that the Indalo group is proactive in their efforts to design and implement a financially viable business model that is environmentally friendly.

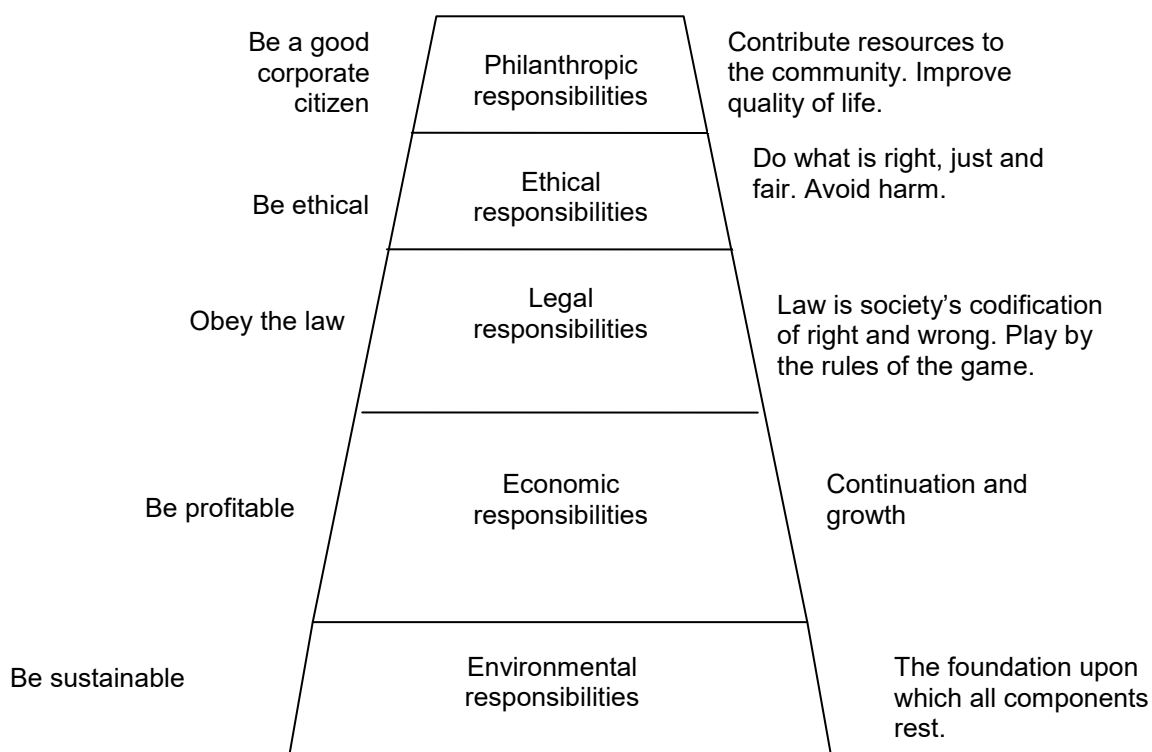
In addition „environmental education“ emerged as a key aspect and innovative tool in ensuring the reduction of negative impacts to the natural environment. Environmental education takes place in three areas namely, the reserves' rangers, the reserves' guests as well as the surrounding communities. Environmental education undertaken by the reserves highlights the crucial role of both society and organisations in engendering more committed forms of sustainable activities. It encourages individuals and equips them with the necessary knowledge to conserve and protect the environment. In this way the benefits of environmental education are widespread and have the potential to contribute to extensive sustainable development.

The natural environment is not a responsibility of the Indalo group alone, but of both the Indalo group and its stakeholders. Hence, the importance placed by managers on the environment to ensure overall success for both the reserve and its stakeholders, as well as for

future generations, as indicated by the findings. The findings clearly establish that “without the environment, it would not be possible to sustain business operations, nor life itself” as suggested by Superti (2005:18) and Visser (2005:46). For this reason it can be further established that environmental responsibilities are too important to be omitted from the CSR context as originally proposed by Carroll’s (1991) pyramid of CSR

As previously mentioned, Carroll (1991:42) indicates that although the components have been treated as separate concepts for discussion purposes, they are not mutually exclusive. In order to capture the non-mutually exclusive nature of the responsibilities, the dotted lines separating each component of CSR, as illustrated in Figure 1, have been replaced by solid lines, as seen in Figure 2.

Figure 2: The five components of CSR Framework



Finally, it can be concluded that based on the five components of CSR framework, the Indalo group are actively involved in each of the five responsibilities comprising CSR



## MANAGERIAL IMPLICATIONS

With regard to the current practice and CSR strategies utilised by the Indalo group, the following recommendations to management are made:

- A formal code of ethics be utilised at each of the member reserves. A code of ethics is important as it combines the diverse values and ethical approaches of individuals in an organisation to ensure fairness and consistency (Hellriegel *et al.*, 2008:128). In addition a code of ethics sets out guidelines for both employers and employees and, in turn, ensures the complete wellbeing of an organisation's personnel (Swanepoel *et al.*, 2003:585). In this way a code of ethics can aid in the smooth transition towards establishing a „sustainable organisation“ as both employers and employees are aware of their responsibilities.
- Managers become familiar with tourism policies at the national level namely, the National Framework for Sustainable Development (2010) as well as the Responsible Tourism Guidelines (2002). In addition policies at the international level, namely the Global Sustainable Tourism Criteria (2010) may prove to be useful. These policies provide useful information and guidance in transforming a tourism organisation into a „sustainable organisation.“
- Managers at each of the ecotourism based PGRs work together to combine local linkages, namely the provision of various training programmes and the provision of local products and services from surrounding communities. Currently these linkages are duplicated at each of the reserves, by combining the linkages the Indalo group can ensure a wider impact as well as a reduction in costs.
- Manager's communicate the changes involved in „adapting business practice“ to employees to ensure their understanding and active contribution in CSR activities.
- Managers at each of the ecotourism based PGRS share the CSR strategies and initiatives used at their reserves with each other, to ensure learning and a transfer of knowledge as well as the opportunity to utilise the most successful CSR strategies.
- Achievable and concrete goals are put in place in terms of each of the five responsibilities of CSR so as to encourage employees towards promoting a

sustainable environment. In addition goals provide a form of measurement against which the development of the Indalo group's CSR agenda could be assessed.

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**STAFF WELFARE AND INSTITUTIONAL DEVELOPMENT IN OSUN  
STATE CIVIL SERVICE OF NIGERIA**

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# **STAFF WELFARE AND INSTITUTIONAL DEVELOPMENT IN OSUN STATE CIVIL SERVICE OF NIGERIA**

## **ABSTRACT**

The study examined the key issues in institutional development and workers' welfare in the Osun State civil service; identified and evaluated the existing welfare programmes in the state; investigated the extent to which existing welfare programmes affect institutional development in the service; and assessed the challenges confronting institutional development in the state. This was with a view to understanding the complexity of issues involved in employer-employee relations, especially in the build up to and after the declaration of labour dispute.

Primary and secondary data were used for the study. Primary data was used to elicit information from respondents through questionnaire administration and conduct of in-depth interview. Stratified random sampling technique was used in selecting the respondents. The Public Service of Osun State was stratified into Ministry of Works, Ministry of Industry and Commerce, Ministry of Education, Ministry of Health, Ministry of Environment and Ministry of Land and Physical Planning. Simple random sampling technique was used in selecting respondents from each stratum with a sample fraction of 20%, bringing the sample size to 321. Questionnaire was administered to the 321 respondents. Furthermore, in-depth interviews were conducted with the Permanent Secretaries and Directors of Personnel in each of the selected ministries, and union leaders of existing trade unions. The interview elicited information on workers' welfare packages. Secondary data was sourced from relevant textbooks, academic journals, newspaper cuttings as well as official documents and publication, of the ministries namely gazettes, office records and minutes of meetings. Data collected for the study were analyzed using descriptive and inferential statistics.

The results showed that accountability ( $\bar{x} = 20$ ), leadership ( $\bar{x} = 18.35$ ) and succession plans ( $\bar{x} = 16$ ) were prominent issues involved in institutional development in Osun State. Pay system ( $\bar{x} = 20.33$ ) constituted the major welfare package for Osun State workers, followed by adequate

motivation ( $\bar{x} = 20.00$ ) next was the provision of housing allowance ( $\bar{x} = 19.35$ ), followed by training ( $\bar{x} = 18.19$ ), health care facilities ( $\bar{x} = 18.13$ ), and finally transportation ( $\bar{x} = 16.33$ ). The result also showed that few workers benefited from the welfare packages of the Osun State Government such as training ( $\bar{x} = 18.19$ ), transport/car refurbishing loan ( $\bar{x} = 16.33$ ), and study leave with pay ( $\bar{x} = 20.33$ ). Also, it was found that a single welfare package is not enough incentive to get the best out of civil servants in the State, but a combination of welfare packages. Comparative Analysis of Institutional Development and Workers' Welfare showed that there was a significant relationship between institutional development and workers welfare package in Osun State Civil Service. It further revealed that the provision of adequate workers' welfare had effect on institutional development and the attainment of organizational goals. Also, the result identified that employment of unqualified personnel, indiscipline, corruption and undue political influences as some of the challenges undermining the development of Osun State civil service as well as uneven distribution of workers' welfare packages.

The study concluded that workers' welfare is a necessary condition for efficiency and effectiveness.

**Keywords:** Staff Welfare, Institutional Development, Efficiency, Motivation.

## **INTRODUCTION**

The concept of staff welfare has been a focus of research and public concern for many years. It is based on the assumption that employees need the institution as much as the institution needs them and that the administrator understands that employees are the most valuable asset in the institution.

The notion of staff welfare involves the workforce being provided with a greater degree of incentives, capacity-enhancing schemes and improved working conditions, which may include: subsidized canteen facilities where employees are assured of a standard meal at least once a day, medical facilities to cater for their health, subsidized transport facilities to take them to and from work, and in some cases, housing or housing allowances. In a developing country like Nigeria where essential amenities like transport and health services are not so efficient, some organizations have found that the effort to achieve institutional development is based on making such subsidized provision that would have been the case if such facilities were not available. Why do workers work? The question almost sounds silly, yet to any public organization where the labour of employees is energized, “staff welfare” appears to be the answer. Staff welfare thus constitutes the propelling force that energizes and gives direction to an employee’s behaviour in the work place (Di Casare and Sadri 2003). Managers often hope to improve the system by improving staff welfare. However, how and why do they attempt to do this and whether efforts succeed or not are serious questions of great concern to scholars. Human nature can be very simple, yet it is equally very complex. Understanding and appreciating this complexity is prerequisite to the effective management of staff welfare in the workplace.

The role of a manager in the workplace is to get things done through the employees. To do this, the manager attempt to provide adequate staff welfare facilities, it is widely assumed by managers that provision of adequate worker’s facilities will lead to an increased in institutional development. For workers who are “deeply involved with their work”, this may be true (Mulins 1996), but perhaps surprisingly, overall evidence suggest that there is no strong correlation between positive staff welfare and institutional development (Wilson and Rosenfel 1990). In spite of enormous research, basic as well as applied, the subject of staff welfare is not clearly

understood and more often than not poorly practiced. One can safely assert that effective management is *sin qua non* to the survival and subsequent development of any institution.

Welfare package is the driving force that stimulates an individual worker into action in order to contribute his quota towards achieving institutional objectives and goals. Many managers today are not aware of the effects that quality staff welfare can have on their business, and it is therefore important that they learn and understand the factors that determine positive staff welfare. In any government institution, it is the responsibility of the Director in concert with his political head and supporting secretariat staff to initiate better conditions of service and welfare schemes from time to time. Steers and Porter (1991) and Osterater (1999) were of the opinion that a good understanding of staff welfare by management can serve as a valuable tool for understanding the causes of behaviour in organization.

## **PROBLEM STATEMENT AND RESEARCH OBJECTIVES**

The crisis of the nation-state of Nigeria has been traced by many scholars to the failure of State institutions (Alex De Tocqueville, 1938 Wunsch and Olowu, 1995 and Zartman, 1995). For instance the Accountability institutions such as the Code of Conduct Bureau, the Court System, the Independent Corrupt Practices and other related Crimes Commission (ICOC), and Economic and Financial Crimes Commission (EFCC), and the Police; the Banking Institution, the Educational Institution, the Civil Service Institution, and of course, the Political Institutions have been grossly criticized for weakness, impropriety and corruption. The aggregate performance of public institutions in Nigeria thus reflects failure, impropriety, indecorum and administrative normlessness.

The Osun State Civil service as a public institution is focused for study with the view to establishing the nexus or relationship between workers' welfare and institutional well-being. It is unfortunate that government has not been responding promptly, to workers' grievance for better condition of service over the years. It is presumed that the incongruous relationship has adversely affected the institutional well-being and development of the Osun State Civil Service. Nigeria Union of Teachers (NUT), Nigeria Labour Congress (NLC), Nigeria Medical Association

(NMA), Nigeria Union of Local Government Employee (NULGE) came together in 2009 to agitate for better condition of service. The delay of the State government in swiftly responding to the labour union's demands ended up in strike actions. Over the years, Civil Servants in Osun State had gone on strike at various times as indicated below:

On 31<sup>st</sup> of May 2000 Civil Servants in Osun State went on strike as a result of non promotion of members who were due in 1999, and also for varying dates of leave allowance for civil servants in Osun State. 6<sup>th</sup> of July 2000 Civil Servant in Osun State went on strike, agitating over non-implementation of #6,500 new national minimum wage for workers in the Osun State and disengagement of workers from Osun State Civil Service. Osun State Civil Servant also went on strike on 25<sup>th</sup> of January 2006 as a result of non implementation of 12.5% harmonized salaries for the Public Service. There was another strike on 27<sup>th</sup> of June 2007 for non-implementation of the 15% increased in the salary structure for Osun State Public Servants.

Recently, when some workers in Teaching Hospitals all over the country, Senior Staff Association of Nigeria University (SSANU), Non Academic Staff Union (NASU) and Academic Staff Union of Nigeria University (ASUU) went on strike almost the same time, those in teaching hospitals went on strike because the management of the hospitals failed to carry out promotion exercise for the past three years. SSANU went on strike demanding the extension of retirement age of its members from 60 to 65 years, for over three years the union has also been pitched against the Federal Government over the issues of salary and emoluments of its members, University autonomy and monetization policy. ASUU has gone on strike for forty-two (42) months in the last fourteen (14) years demanding for improved working conditions.

It is generally assumed that a worker performance will increase tremendously if he knows that he will be paid more for his efforts. Thus, it is apparent that institutional development will be hampered without the full involvement and participation of the workers. It is not therefore, an understatement to say that staff welfare is key to realization of institutional development. Staff welfare in whatever form it might take, either as a result of manpower training and development, provision of medical facilities to cater for their health, subsidized transport facilities to take them

to and from work or car refurbishing loan and in some cases housing or housing allowances constitute great inducement towards institutional development.

The specific objectives are to:

- (i) examine the key issues in institutional development and workers' welfare in the Osun State Civil Service;
- (ii) identify and evaluate the existing welfare programmes in the State;
- (iii) investigate the extent to which existing welfare programmes affect institutional development in the Osun State Civil Service; and
- (iv) assess the challenges confronting institutional development in the Service.

## **LITERATURE REVIEW**

Staff welfare, broadly defined, includes compensation, working hours, labor insurance, education, vacations, employment services, and union organization. In its more narrow sense, it is the improvement of labor conditions and job efficiency through the cooperative efforts of employers, labor unions, and employees. As the driving force for putting business philosophy into practice, employees are the stakeholders most deeply involved in company efforts. Therefore, employment is viewed as one of the most important factors in management. Along with showing respect for human rights, character and individual personality, the organization strives to provide workplaces that are safe and easy to work in.

To make optimal use of their capabilities, employees require a safety net that will enable them to dedicate themselves to their work even when faced with such contingencies as pregnancy, injury or healthcare for family members. Such developments have a direct impact on an employee's performance, and consequently it is necessary to find ways to enhance the employee's productivity and strike a balance between work and private-life responsibilities. The following employee welfare systems have been developed in the literature with these considerations in mind.

**a. Work schedule systems**

- Flexible working hours system

This system gives employees the flexibility to choose when they start and finish work each day. From fiscal 2008, it will become possible for employees engaged in child raising or nursing care to work fewer hours on some days under this system.

- Outside de facto working hours system

This is applicable for sales-related work performed outside the office. Under this system, employees are considered to have worked their scheduled number of working hours regardless of the actual number of hours worked.

- Discretionary working system

This system applies to researchers and staff with a certain amount of responsibility. Under this system, an employee's work performance is evaluated largely on the contribution they make to the company. Employees are compensated for a fixed number of hours regardless of the actual number of hours worked.

**b. Vacation and leave**

- Maternity and child-care leave

The employee is able to take the leave until the child is three years old. They have also introduced a system for reduced working hours for employees raising children, employees qualify for this system until their child begins elementary school. In the event that an employee makes use of the child-care leave, that person may feel concern about the possibility of skill deterioration due to a lack of information while away from the workplace, or upon reentry back into the workplace. To prevent this anxiety, employees taking child-care leave are lend a PC, and have begun a system for providing updates with regard to company information, self-study, and communication with company staff.

- Special leave

In the event that an employee's child, spouse, or parent suffers injury or illness, the employee is allowed up to five days (per year) of special leave separate from the normal annual leave allowance-to allow him/her to care for the indisposed family member.

- Nursing care leave

Astellas has introduced a nursing leave system where employees can take time off (up to a year) to aid in the home care of family members. It is also possible to work one hour less a day without taking leave.

- Recovery leave

If continued hospitalization or home care is necessary after receiving one month of treatment for the same disease or injury, employees can take up to one extra month of leave for recovery.

- Bone marrow donor special leave

Out of respect of an employee's desire to donate bone marrow, a system has been created so that special leave can be taken to register and donate bone marrow.

- c. Registration for reemployment

Medical representatives who previously were forced to resign from their jobs due to responsibilities involving child raising, nursing care for family members or the transfer of a spouse to a new work location, can now register for reemployment. These individuals can be rehired as necessary, with preference given to seniority.

In the literature exponents such as Drucker (1984), Cole (2002), Nwachukwu 1988, Stoner (1977) have explained the following as the ways of enhancing workers welfare; they are thorough training, motivation, leadership style and good working environment.

## **INSTITUTIONAL DEVELOPMENT**

Institutional development is concerned with the process and content of changing existing institutions to improve their effectiveness in promoting growth and service delivery. It relies on support and participation from those at a high political level and also from key actors and stakeholders.

Institutional frameworks govern people's access to civil service systems. Significant development resources have been focused on trying to change the way organisations operate. However, there is limited success without change to the institutional framework, which governs the way organizations behave, their relationships and accountability mechanisms. Similarly, without



empowering poor people to have agency there will be limited change in their ability to access services.

Institutional development includes institutional reform and organizational development. It is about changing the formal and informal rules of the game, which govern the relationships between policy-makers (the enablers), service providers (the responders) and poor people, both as consumers of services and as citizens with voices. The issue of institutional development, especially under the slogan of “good governance”, has recently come to occupy the centre stage of development policy debate.

To enhance a sustainable institutional development there is need to embark on suitable Accountability Mechanism.

### **What is Accountability?**

Conventionally, accountability refers to answerability for one’s actions or behaviour. Formally, accountability involves the development of objective standards of evaluation to assist the owners of an organization to evaluate the performance of duties by individuals and units within the organization.

### **Why is accountability important?**

Accountability is essential for the efficient functioning of all organizations and especially of governmental organizations in a democratically governed state. First, accountability structures in the public sector are surrogates for market forces in nonmarket conditions. They help to reflect the preferences of the public as citizens and consumers in the public realm. Accountability also serves as a quality control device. Public accountability is the requirement that those who hold public trust account for the use of that trust to citizens or their representatives. Public accountability underscores the superiority of the public will over private interests for those engaged in the provision and delivery of services to the general public. For this reasons, it is often argued that where there is no accountability, the public administrative system runs amok.

Secondly, accountability is closely related to the enjoyment of the democratic life. Democratic governance implies the supremacy of citizens in the governing process. The requirement that ministers be responsible and public servants be accountable is at the very root of democracy. A popular axiom of public administration credited to Lord Acton of the United Kingdom is that “power corrupts, and absolute power tends to corrupt absolutely.” The more government expenditures increased relative to gross domestic product (GDP), the more necessary public accountability became.

Thirdly, accountability is one of the five norms of good or better governance, the others being efficiency, transparency, predictability or rule of law, and legitimacy. Fourthly, interest in public sector accountability is also motivated by the widespread public perception that public sector organizations are generally wasteful. Waste is perceived in two senses. One is the inefficient use of public resources in the delivery of public services. A bloated African civil service that lacks the essential facilities or essential skills is one example of wasteful use of public resources: drivers without vehicles, teachers without school supplies, and doctors without drugs. The demand for accountability and transparency has been aggravated by the sharp decline in resources available to state institutions in the face of rising expectations in the late 1980s, 1990 and 2000s has brought tremendous pressure on governments to ensure that they give citizens maximum possible value for their money.

## **RESEARCH METHODOLOGY**

### **Methodology and Hypotheses**

Based on the discussion in the above, it was decided to test the relationship between staff welfare and institutional development. Staff welfare was measured by training and development and motivations as staff welfare. These variables served as the dependent variables in this study.

The following hypotheses are advanced:

- (i) There is no significant relationship between staff welfare packages and institutional development in Osun State Civil Service.
- (ii) There is no significant relationship within staff welfare packages institutional

- (iii) development in the state civil service.
- (iv) There is no significant relationship between training and staff welfare in Osun state civil service.

The research involved a descriptive survey method. Information was gathered from respondents through close-ended structure questionnaires and interview.

### **Population**

The population here refers to the components of the Osun State Public Service or called staff strength. The Osun State Public Service is made up of ministries, non-ministerial departments, parastatals, judiciary the legislature and the entire political appointees thus: Staff strength of the key political officers. The study covers the whole civil service of Osun State, and it was restricted to 6 ministries which are Ministry of works, Ministry of Industry and Commerce, Ministry of Education, Ministry of Health, Ministry of Environment and Ministry of Land and Physical Planning.

For the purpose of this study thirteen ministers shall be considered as the population and the total population is (2,188) two thousand one-hundred and eight-eight.

Simple random sampling technique was used in selecting respondents from each stratum with a sample fraction of 20%, bringing the sample size to 321.

Primary and Secondary data were used for this study. The primary data was collected through questionnaire administration and conduct of in-depth interview. Questionnaire was administered to the 321 respondents, 53 respondents from each of the six ministries. In-depth interview was conducted with the permanent secretaries and directors of personnel in each of the selected ministries, and union leaders of existing trade unions.

Secondary data were sourced from relevant textbooks, academic journals, newspaper cuttings as well as official documents and publications of the ministries namely gazettes, office records and minutes of meetings.

The instrument used for the purpose of eliciting information from respondents for this research was tagged Workers' welfare and Institutional Development Questionnaire. (WWIDQ). The questionnaire was attitudinal in nature and developed by the researcher.

The questionnaire consists of two main sections. Section A general Information from respondent such as age, sex, work experience, academic and professional qualification etc. Section B, consist of issues in institutional development, why section c was made up of indices for measuring staff welfare. Analysis of Variance (ANOVA) was used to test the hypothesis.

## **RESULTS**

### **PRESENTATION OF DATA, ANALYSIS AND DISCUSSION**

#### **Introduction**

Data collected were put in numerical form to be meaningful and they were summarized in tables and grouped into frequencies and summary calculations were made to make them useful in aiding tangible decision-making.

#### **Characteristics of Respondents**

Section A of the questionnaire contained demographic variables/bio-data of the respondents, ranging from Sex, Age, Marital Status, and length of service etc.

**Table 1: Gender distribution of respondents**

<b>Classification</b>	<b>Frequency</b>	<b>Percentage(%)</b>
Male	201	62.6
Female	120	37.4
Total	321	100

*Source:* Field survey, July, 2010.

From Table 1, illustration shows that 201 (62.6%) of the respondents are male while 120 (37.4%) of the respondents are female. Therefore, it is evident that there are more of male respondents than female who successfully filled and returned the questionnaire.

**Table 2: Respondents in Accordance to Marital Status**

<b>Classification</b>	<b>Frequency</b>	<b>Percentage(%)</b>
Single	94	29.3
Married	191	59.5
Divorced	10	3.1
Separated	04	1.2
Widowed	22	6.9
Total	321	100

*Source:* Field survey, July, 2010.

Table 2 shows that 94(29.3%) of the respondents are single, 191(59.5%) are married, 10(3.1%) are divorced, 04(1.2%) are separated while 22(6.9%) of the respondents are widowed.

**Table 3: Educational Qualification of Respondents**

<b>Respondents</b>	<b>Frequency</b>	<b>Percentage(%)</b>
WASCE/GCE/NECO	26	8
OND/NCE/HND	181	56.4
First Degree	104	32.4
Master Degree & Ph.D	10	3.1
Total	321	100

*Source:* Field survey, July, 2010.

From table 3 above, the respondents are educated and they understood the purpose of the study, hence their response could be relied on as being accurate to base the conclusion upon.

### **Key Issues in Institutional Development on Workers**

Hypothesis one captioned this objectives and it is stated: There is no significant relationship between institutional development and welfare packages in Osun State Civil Service. A lot of key issues concerning institutional development and worker's welfare were revealed from the literature review and the realities on ground in Osun State Civil Service. However three principal variables were finally used to measure institutional development. They are Accountability, Leadership and succession plan. Table 4 below shed light into the issues of variables put in place for institutional development.

**Table 4: Descriptive statistics on institutional development variables on minimum, maximum, sum total, mean, standard error, standard deviation and variance.**

<b>Variables</b>	<b>Minimum statistic</b>	<b>Maximum statistic</b>	<b>Sum statistic</b>	<b>Mean statistic</b>	<b>Std error</b>	<b>Std deviation</b>	<b>Variance</b>
Accountability	11.05	72.00	6100	20.00	4.74	24.43	24.43
Leadership	10.00	25.00	5805	18.35	3.76	11.29	11.29
Succession	10.00	58.00	4899	16.00	4.57	16.38	16.38

*Source:* Field Survey, July, 2010

From Table 4 above Accountability, leadership and succession plans, were prominent issues involved in institutional development in Osun State. From the mean ( $\bar{x}$ ) scores of the descriptive statistics in the table 4 above, it shows that there are three prominent variables for measuring institutional development, and they are accountability, with mean score ( $\bar{x}$ 20) leadership mean score ( $\bar{x}$ 18.35) and succession mean score ( $\bar{x}$ 16) from the sum statistic, means, standard error, standard deviation and variance it is evident that there are packages for institutional development in Osun state.

Table 5 discusses the issues involved in worker’s welfare. From the literature, a lot of issues were discovered concerning worker’s welfare. For the analyses in this study six prominent issues and variables were raised and they became the bases of analysis in this study. The issues were pay system, housing allowance, transportation, health facility, motivation and training. Table 5 gave an explicit analysis of the issues.

**Table 5: Descriptive statistics on workers welfare variables on minimum, maximum, sum total, mean, standard error, standard deviation and variance.**

Variables	Minimum statistic	Maximum statistic	Sum statistic	Mean statistic	Std error	Std deviation	Variance
Pay system	11.00	72.00	6100.00	20.33	.285	4.942	24.430
Housing allowance	10.00	25.00	5805.00	19.35	.194	3.360	11.292
Transportation	10.00	58.00	4899.00	16.33	.233	4.047	16.382
Health facility	6.00	25.00	5439.00	18.13	.242	3.123	9.757
Motivation	11.00	72.00	6000.00	20.00	.280	4.542	23.330
Training	7.00	25.00	5439.00	18.19	.2426	3.123	9.757

*Source:* Field Survey, July, 2010.

From Table 5, pay system constituted the major welfare package for Osun State workers, followed by adequate motivation next was the provision of housing allowance, followed by

training, health care facilities and finally transportation. The mean ( $\bar{x}$ ) scores of the six variables for workers welfare are in this order: (1) Pay system ( $\bar{x}$ =20.33) (2) Motivation ( $\bar{x}$ =20.00) (3) Housing Allowance ( $\bar{x}$  =19.35) (4) Training ( $\bar{x}$  = 18.19) (5) Health facility ( $\bar{x}$ =18.13) (6) Transport ( $\bar{x}$ = 16.33). From this table staff welfare was adequately taking care of in Osun State.

**COMPARATIVE ANALYSIS OF INSTITUTIONAL DEVELOPMENT AND WORKERS WELFARE (TABLES 4 AND 5).**

**Table 4: Descriptive statistics on institutional development variables sum total, mean**

Variables	Sum statistic	Mean statistic
Accountability	6100	20.00
Leadership	5805	18.35
Succession	4899	16.00

Source: Field Survey, July, 2010

**Table 5: Descriptive statistics on workers welfare variables sum total & mean statistics**

Variables	Sum statistic	Mean statistic
Pay system	6100.00	20.33
Housing allowance	5805.00	19.35
Transportation	4899.00	16.33
Health facility	5439.00	18.13
Motivation	6000.00	20.00
Training	5439.00	18.19

Source: Field Survey, July, 2010.

The two tables above showed that there is interactive relationship between them. From table 4 the mean statistics of the institutional development variables accountability ( $\bar{x}$  20.00) Leadership ( $\bar{x}$ = 18.35) Succession ( $\bar{x}$ = 16.00) compared with workers welfare variables i.e. Pay system ( $\bar{x}$ =20.33) (2) Motivation ( $\bar{x}$ =18.19) (3) Housing Allowance ( $\bar{x}$  =19.35) (4) Training ( $\bar{x}$  = 18.19) (5) Health facility ( $\bar{x}$ =18.13) (6) Transport ( $\bar{x}$ = 16.33).



A comparative analysis of the two tables shows that there is a significant relationship between institutional development and staff welfare package in Osun State Civil Service, and one is affecting the other.

The second objective is to identify and evaluate the existing welfare programme in the state. It translates to hypothesis two which states that there is no significant relationship within staff welfare packages in the state civil service.

Table 5 establishes at least six issues in workers welfare in Osun State. In order to know the differences between the mean, scores were further subjected to analysis of variance (ANOVA) as shown in Table 6 below.

**Table 6: One way ANOVA Table comparing the means of scores on workers welfare.**

		Sum of square	Df	Mean square	F	Sig.
Pay System	Between Groups	85.21	2	1	1.75	.175
	Within groups	7219.45	319	42.6		
	Total		321	24.3		
Housing allowance	Between Groups	3.57	2	1.78	.157	.854
	Within Groups	3372.6	319	11.35		
	Total	3376.2	321			
Transportation	Between Groups	2.12	2	1.06	.064	.938
	Within Groups	4896.2	319	16.48		
	Total	4898.3	321			
Health Facility	Between Groups	10.45	2	5.22	.295	.745
	Within Groups	5269.4	319	17.4		
	Total	529.9	321			
Motivation	Between Groups	3.56	2	1.78	.156	.853
	Within Groups	3372.6	319	11.34		
	Total	3376.20	321			
Training	Between Groups	34.14	2	17.07	1.078	.341

	Within Groups	4701.25	319	15.82		
	Total	4735.3	321			

**Source:** Field Survey, 2010.

Table 6 discusses the comparative analysis between square means of scores of six workers welfare indicies i.e. pay system (1.0), housing allowance (1.78), transportation (1.06), Health facilities (5.22), motivation (1.78) and training (17.07), one can deduce that there are interactions in between mean square. Again, if one compares the within group means, pay system (42.6), housing allowance (11.33), transportation (16.48), health facility (17.4), motivation (11.34) and training (15.82) again we have a very close relationship within group means, which also shows serious interactions.

Furthermore, comparing the F statistics and the significant level of workers welfare indicies, one can see that there is a close relationship and a very high interaction in existence. Take for instance: pay system (F = 1.75<.175), Housing (F = .157<.854), Transport (F = .064<.938), Health Facilities (F = 295<.745), motivation (F = .156<.853) and Training (F = 1.078<.341).

The findings have shown that one particular welfare package cannot be enough for Osun State workers but there must be interactive effect between workers welfare variables. (Pay system, housing allowance, transportation, health facility, motivation and training).

**Table 7: One way ANOVA table comparing the means of scores on Institutional Development.**

		Sum of squares	Df	Means square	F	Sig.
Accountability	Between Groups	75.21	2	1	1.65	.165
	Within Groups	6219	319	41.6		
	Total	6294	321	23.3		
Leadership	Between Groups	2.57	2	1.69	.147	.654
	Within Groups	2372	319	10.35		
	Total	2375	321			

Succession	Between Groups	2.12	2	1.0	.054	.838
	Within Groups	3896	319	15.48		
	Total	3898	321			

*Source:* Field Survey, 2010.

Comparing minimum scores, maximum scores, sum, mean statistics and standard error, standard deviation and variance of workers welfare variables in table 6 with table 5 on institutional development, it was observed that there is a relationship between workers welfare and institutional development.

### **Relationship between Staff Welfare and Institutional Development**

Furthermore, comparing the F statistics in table 6 with F statistics in table 7 one can easily see the significant relationship that exist between staff welfare and institutional development. Therefore the hypothesis one that says there is no significant relationship between staff welfare and institutional development is hereby rejected

Hypothesis two says, there is no significant relationship between workers welfare packages.

Critical look at table 5 shows the six variables for measuring workers' welfare, and one can see from the mean scores, standard error, standard deviation and variance that, a relationship exist. (pay system  $\bar{x}$  22.33, Housing  $\bar{x}$ 19.35, Transportation  $\bar{x}$ 16.33, Health facility  $\bar{x}$ 18.13, motivation  $\bar{x}$ 20.00, and training  $\bar{x}$ 18.19). Furthermore, looking at the F statistics, of the variables of measuring workers welfare (Table 6) one can see that there is a relationship between workers welfare packages (Pay system F = 1.75, Housing F = .157, Transport f = .064, Health Facilities f = 295, motivation f = .156 and training f = 1.078) therefore, hypothesis two says that there is no significant relationship between staff welfare packages is hereby rejected. Hypothesis three says there is no significant relationship between training and workers welfare in Osun State.

Table 5 shows the relationship between workers welfare packages in which training was one. Looking at training from variable means  $\bar{x}$  = 18.18, standard error. 2426 standard deviation

3.123, and variance of 9.757, one can see that a relationship exist between training and other variables for measuring workers welfare packages.

To go inferential, table 1 shows the f table of workers welfare packages. Consider f = 1.078 of training with other variables (pay system f = 1.75, Housing f. 157, Transport .064, Health facilities f = .295 and motivation f = .156.) one can deduce that a significant relationship do exist. Therefore hypothesis three that says there is no significant relationship between training and workers welfare in Osun State Civil Service is therefore rejected.

### Challenges confronting Institutional development

The objective on challenges confronting institutional development was considered through four variables i.e. continuity, corruption, lack of accountability and socio cultural factors. Descriptive analysis was presented below.

**Table 8: Descriptive statistics on challenges confronting institutional development. (minimum, maximum, sum total, mean, standard error, standard deviation and variance).**

Variables	Minimum statistic	Maximum statistic	Sum statistic	Mean statistic	Std error	Std deviation
Continuity	6.00	15.00	3233	10.776	.1360	2.35
Corruption	6.00	15.00	3380.00	11.266	.1283	2.22
Lack of Accountability	6.00	15.00	2930.00	9.76	.1461	2.531
Socio-cultural factors	5.00	64.00	2778.00	9.260	.253	4.398

Source: Field Survey, July, 2010.

From table 8 above, corruption had the highest mean ( $\bar{x}$ = 11.26), followed by continuity ( $\bar{x}$ =10.77), next was lack of accountability ( $\bar{x}$ =9.76) and lastly by socio-cultural factors ( $\bar{x}$ =9.26). This shows that a relationship exist between the indices for measuring challenges confronting institutional development. This means further showed that corruption as being the major challenge confronting institutional development in Osun State.

For more details, the means scores were subjected to Analyses of Variance (ANOVA) to actually know which of the indices affected, and constitute the major challenge to institutional development.

**Table 9: One-Way Analysis of Variance (ANOVA) to show the relationship between the indices for measuring the challenges confronting institutional development**

		Sum of squares	Df	Means square	F	Sig.
Continuity	Between Groups	61.673	1	61.673	11.498	.001
	Within Groups	1598.36	20	5.364		
	Total	1660.037	320			
Corruption	Between Groups	28.111	1	28.111	5.78	.017
	Within Groups	1448.55	320	4.861		
	Total	1476.667	320			
Lack of Accountability	Between Groups	31.259	1	31.259	4.943	.027
	Within Groups	1884.407	320	6.324		
	Total	1915.667	320			
Socio-cultural factors	Between Groups	14.71	1	14.71	.760	.384
	Within Groups	5769.00	320			
	Total	5783.720	320			

*Source:* Field Survey, July, 2010.

Table 9 (ANOVA) above, the result is as follows: Socio-cultural factors as an index of (F= 760, Sig at .384) (.05 level of freedom) which means socio-cultural factors affect institutional development in Osun State than other indices. Followed by lack of accountability (F=4.94, Sig at .027), (.05 level of freedom), followed by corruption (F=5.78, Sig at 0.17, (.05 level of freedom) and lastly, continuity (F=11.49, Sig at .001 (.05 level of freedom).

From the result it is obvious that all the four indices used constituted a lot of challenges to institutional development in Osun State.

## **CONCLUSION**

The issue of workers welfare and institutional development is a very complex one to the extent that it becomes almost difficult for any organization to map out individuals specific needs at work. On this note for civil service and other establishments to contribute more meaningful to the economic development of this nation and the world at large the following conclusions were made.

- That the workers in the Osun State Civil service rated pay system higher and transport facility was rated sixth position.
- That one particular welfare package cannot be enough or adequate for Osun State workers but there must be interactive effect between workers welfare variables.
- That there are packages for institutional development in Osun State. There are three prominent variables for measuring institutional development and they are accountability, leadership and good succession plan.
- It was also established from the findings that a relationship exists between staff welfare and institutional development in Osun State.

## **LIMITATIONS AND FUTURE RESEARCH**

The researcher came across some limitations in the course of this work which include the following:

The study was restricted to six ministries out of the fourteen ministries in Osun State. The huge financial expenses, which could have been incurred, were avoided. The statistics that was presented in the data gathered for analysis in this report are based on sample. They will therefore differ somewhat from the figures that would have been obtained if a complete census had to be taken using the same schedules, institutions and interview personnel and procedures. As in any survey, the results were subjected to reporting and processing errors due to non response to the extent possible; these errors are kept to a minimum level. The attitude of the respondents may also contribute a serious limitation to the study. There may be difficulty in having access to some

of the records and documents relating to the work due to „official secret“ of confidential practices in the civil service.

However, despite all these problems encountered by the researcher the finding of this work is valid.

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# **THE RELATIONSHIP BETWEEN POPULAR SPECIES AND SPENDING**

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## **ABSTRACT**

Game farming in South Africa has many income generating facets, such as accommodation, butchery facilities, food and beverage, daily fees and game hunted, of which game generates the most income. Research further revealed that hunters' single biggest expenditure at the hunting destination is the game hunted. Therefore, the aim of this paper is to determine the profile of hunters of the most popular game species regarding income generating species and most preferred biltong hunting species. Descriptive statistics were used to indicate the profile of hunters hunting the five most popular game species hunted and the five highest income generating species. The research population and the sample consisted of all the members of the three largest hunting associations in South Africa, i.e. the South African Hunters and Game Conservation Association (SAHGCA) ( $N=21\ 000$ ), the Professional Hunters Association of South Africa (PHASA) ( $N=1\ 039$ ) and the national Confederation of Hunting Associations of South Africa (CHASA) ( $N=18\ 000$ ) ( $N = 40\ 000$ ), and a sample size of 676 was received back. It is found by the research that gemsbok, blue wildebeest and eland are the species that generate the most income. This research contributes to the game farm industry in that it determines which species generate the greatest income for game farms.

**Keywords:** Popular game species, biltong hunting, game farm, income, expenditure

## THE RELATIONSHIP BETWEEN POPULAR SPECIES AND SPENDING

### INTRODUCTION

South Africa has the largest hunting industry in sub-Saharan Africa (Lindsey, Roulet and Romañach, 2007: 457) and hunting contributes significantly to the economy of South Africa (Van der Merwe and Saayman, 2008: 37; Damm, 2005: 1). Biltong hunting, a subset of the hunting industry in South Africa, has undergone dramatic shifts since the mid-19<sup>th</sup> century and has gone from being an essential survival activity in the harsh, African wilderness to a recreational activity that still exhibits strong cultural affinity (Carruthers, 1994: 266). According to Van der Merwe, Saayman and Krugell (2007: 184), biltong hunting contributes significantly to the general income of game farms in South Africa.

Game farming in South Africa has many income generating facets, such as accommodation, butchery facilities, food and beverage, daily fees and game hunted, of which game generates the most income (Van der Merwe *et al.*, 2007: 189). Game sales have two possibilities, namely game auctions and/or game that is hunted by hunters (ABSA, 2004: 5; Carruthers, 2008: 175; Cloete, Taljaard and Grové, 2007: 72; Van der Merwe, Saayman and Krugell, 2004: 112; Van Niekerk, 2006: 52; ABSA, 2004: 28). Previous research revealed that hunters' single biggest expenditure at the hunting destination is the game hunted (Van der Merwe *et al.*, 2007: 185,187; Scholtz, Van der Merwe and Saayman, 2010: 20). A hunting package offered to hunters has to be market related (reasonable), as biltong hunting has such strong economic links, and any marketing must be highly sensitive to price (Van der Waal and Dekker, 1997: 37). Because biltong hunting has a direct link to a product that can be bought elsewhere (biltong is freely available in every supermarket or butcher in South Africa), the plentiful supply of beef biltong will exert an economic influence on the price game farmers can ask hunters to pay. This is supported by the fact that common species such as springbok, impala and kudu are most often hunted for biltong (Scholtz *et al.*, 2010: 17,18). If there was not this large supply of a competing product, and if biltong hunting was not concerned with a tangible consumable product, then almost any species could be hunted for biltong, for example buffalo.

The importance of game as the biggest income generator of most game farms makes further investigation into the major species inevitable. Therefore, the aim of this article is to determine the profile of hunters of the most popular game species regarding income generating species and most preferred biltong hunting species.

The remainder of this article is structured as follows; a literature review is presented followed by the method of research then the results indicating the major outcomes of the research. The findings and implications will then be discussed ending with the conclusions and recommendations.

## **LITERATURE REVIEW**

Most revenue on game farms is earned through hunting (Van der Merwe *et al.*, 2007: 185,187; Scholtz *et al.*, 2010: 20) and the expenditure of hunters is influenced by their socio-demographic characteristics and travel behaviour (Cannon and Ford, 2002: 264; Jang, Hong and O'Leary, 2004: 333,339; Kastenholz, 2005: 563; Beerli and Martin, 2004: 626; Alegre and Pou, 2006: 135). The most popular game species hunted regarding income and biltong hunting are springbok, impala, blesbok, kudu, blue wildebeest, eland and gemsbok (oryx) (Scholtz *et al.*, 2010: 17,18). Game farm owners need to determine the profile of hunters of these popular species. Once this is determined, game farm owners can decide on a marketing approach for this specific target market (Molera and Albaladejo, 2007: 758-759; Perez and Sampol, 2000: 625).

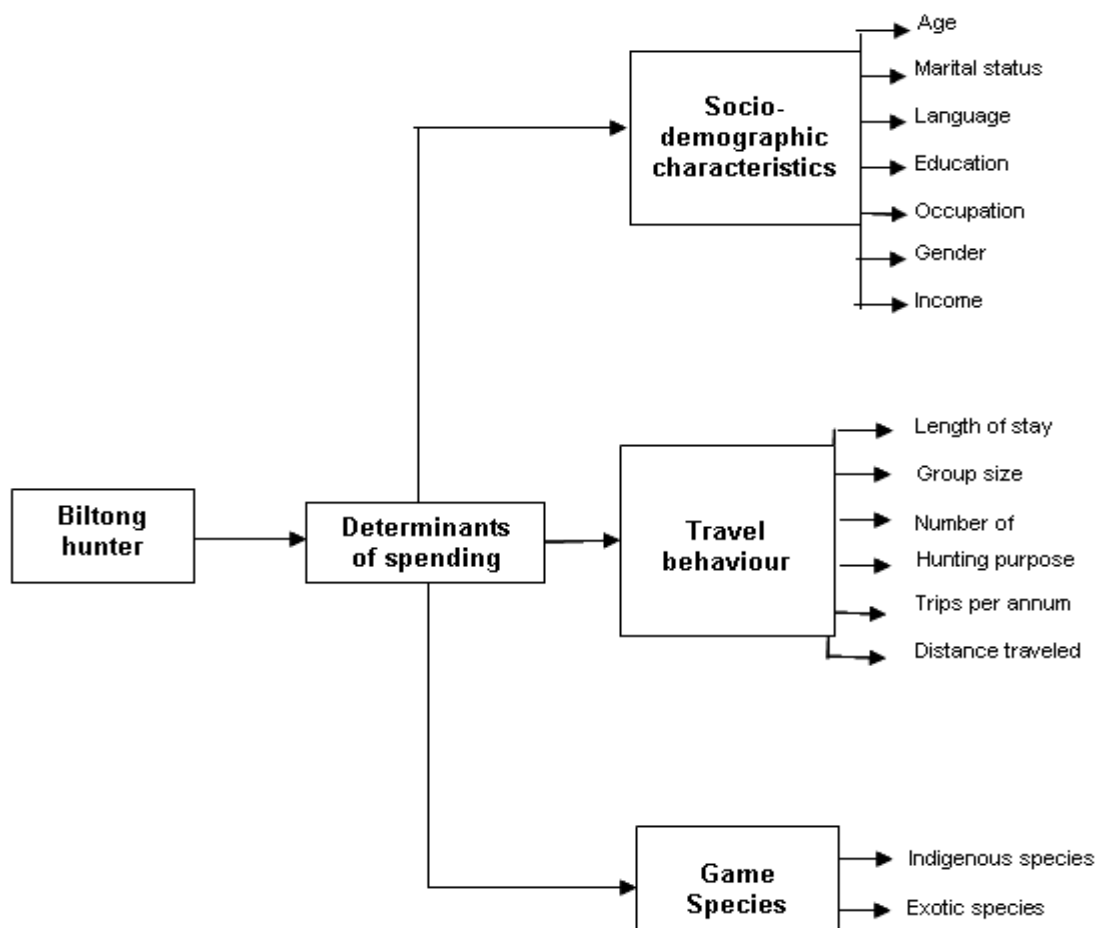
To quantify the economic impact of hunting, the economic impact of hunting activities at a specific destination needs to be estimated (Frechtling, 2006: 26). Forecasting hunting demand at a specific destination has become one of the most critical elements for hunting industry marketers and planners (Song, Wong and Chon, 2003: 436). Increasing hunter numbers will result in a greater income for the game farm (Sheldon, 1993: 13; Perez and Sampol, 2000: 625). This can be obtained by meeting the expectations of hunters. Hunters are being forced into making travel decisions by internal factors such as variety of species and cost of visit (Eloff, 1999: 22; Radder, 2005: 1143; Radder, Van Niekerk and Nagel, 2000: 27; Radder, 2000: 130; Radder, 2001: 176; ABSA, 2003: 17; Boddington, 2010: 203; Reilly, Sutherland and Harley, 2003: 144).

In order for game farm owners to expand their market share in the emerging hunting industry, it is necessary to identify the special characteristics of this market in order to have maximum market penetration (Van Eyk, 2003: 6).

Market segmentation forms an integral part of the marketing process (Jang *et al.*, 2004: 19). Normal segmentation of tourists is conducted on the basis of socio-demographic information (age, language, gender) and travel behaviour (length of stay, group size, number of trips) and is useful in selecting a destination region's travel market (González and Bello, 2002: 51; Horneman, Carter, Wei and Ruys, 2002: 23). However, in the event of hunting, as illustrated in Figure 1, there is a third variable that makes it different to other tourism products and this variable needs to be included in the market segmentation process. This variable is the game species available for hunting. This plays an important part in the decision-making process of hunters and contributes significantly to hunters' satisfaction and to the income of game farms (Eloff, 1999: 22; Botha, 2011: 6). Figure 1 is used as a framework for the discussion of the literature.

**FIGURE 1**

**DETERMINANTS OF SPENDING FOR BILTONG HUNTERS (VAN DER MERWE  
ET AL., 2007: 192; VAN DER MERWE ET AL., 2004: 112; ELOFF, 2002: 19,21)**



### Game species

Jang *et al.* (2004: 337,340), Saayman, Saayman and Naudé (2000: 376) and Van Niekerk (2004: 53) found that product offering at a destination, in this case game, has a positive impact on tourist expenditure.

**FIGURE 2**  
**AVERAGE GAME AUCTION PRICES OF POPULAR SPECIES HUNTED**

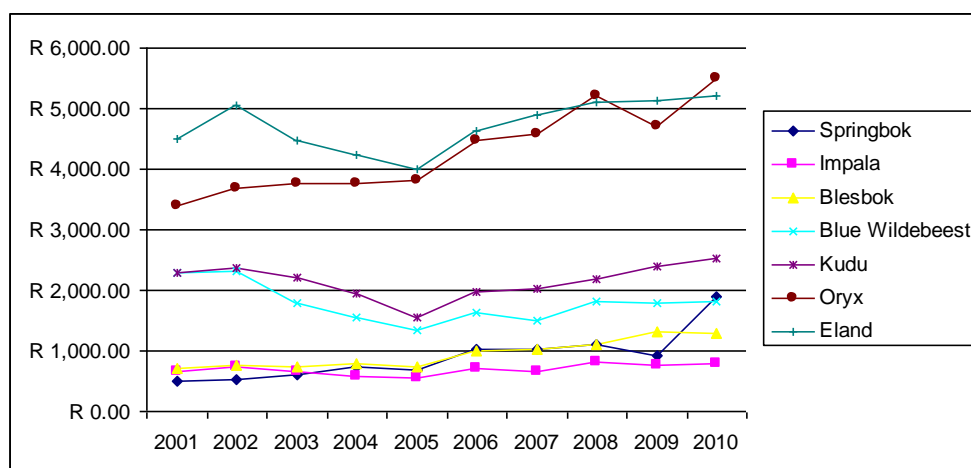


Figure 2 shows the annual prices at game auctions over the past ten years and indicates a steady price increase in some of the popular game species hunted in South Africa by biltong hunters since 2001 (Vleissentraal, 2011; Anon, 2004; Erasmus, 2011). The prices of the smaller and more affordable species that are sought after by biltong hunters have risen faster than for larger species, which can be directly linked to the demand in species from hunters. Only two species, springbok and blesbok, have risen by more than 7% per year (Vleissentraal, 2011). High value species such as sable, roan antelope, black rhino and cape buffalo are mostly used for trophy hunting (Eloff, 1999: 22; Lindsey *et al.*, 2007: 458; Cloete *et al.*, 2007: 74; ABSA, 2003: 27,34) and the more commonly hunted species such as eland, red hartebeest, kudu, blue wildebeest, impala, gemsbok, springbok and warthog, for biltong hunting (Van der Merwe and Saayman, 2008: 18; Van der Waal and Dekker, 2000: 155). It can be accepted that live game prices are driven by demand for trophy hunting and meat hunting, as well as new game farm developments (ABSA, 2003: i,4; Eloff, 1999: 23; Eloff, 2002: 19). This increase can be attributed to a number of factors, such as growth in the wildlife tourism industry (Briel, 2006: 2; Reilly *et al.*, 2003: 14), the increase in the number of game farms (Bothma, 2002: ii; Boddington, 2010: 200) and increasing awareness of the

health advantages of game meat for consumers (Hoffman, Crafford, Muller and Schutte, 2003: 129).

Game has an economic value and is worth conserving on a game farm. The economic value also means that farmers now restock their land with game. Game farm owners need to determine the most profitable game species and market segments of biltong hunters to increase their income (Van der Merwe *et al.*, 2007: 192; ABSA, 2004: i; Van Niekerk, 2004: 53; Eloff, 1999: 22, Radder, 2001: 176). As stated, expenditure on game accounts for by far the largest portion of expenditure by hunters on a game farm (Van der Merwe and Saayman, 2008: 37). Understanding which species generate the greatest income and those that are more popular than others for hunters will enable game farmers to host these species and, as a result, meet the needs and expectations of hunters, which can result in generating more revenue for the game farm owners (Eloff, 1999: 22, Radder, 2001: 176; ABSA, 2003: 17).

The contribution made by hunters to the economy of South Africa (R5 billion per season) and the increasing popularity of biltong hunting since the 1960s (Carruthers, 2008: 169; Scholtz *et al.*, 2010: 15; Van der Merwe *et al.*, 2004: 105) make further investigation into the key factors that influence spending crucial.

Price is very important to hunters. Therefore, it is important for game farm owners to determine the variables that influence the spending of biltong hunters, such as socio-demographic characteristics and travel behaviour (Cannon and Ford, 2002: 264; Jang *et al.*, 2004: 333; Kastenholz, 2005: 563; Beerli and Martin, 2004: 626; Jang *et al.*, 2004: 339; Alegre and Pou, 2006: 135). Once this is determined, they can provide a more viable marketing strategy and style that will ensure a more profitable product.

### **Socio-demographic characteristics**

Tourist expenditure can be explained by two types of variables: socio-demographic characteristics of the tourist (age, gender, occupation, family status, number of children and level of education) (Alegre and Pou, 2006: 1352; Letho, O'Leary and Morrison, 2004: 813; Kastenholz, 2005: 563; Cannon and Ford, 2002: 264; Jang *et al.*, 2004: 338) and economic variables (disposable income, price of holiday) (Jang *et al.*, 2004: 336; Cannon and Ford, 2002: 264; Durbarry and Sinclair, 2003: 938). Biltong hunting expenditure results from a

clustering of various factors. These factors include the socio-demographic characteristics of the hunter, disposable income and distance to hunting destination (Van der Merwe *et al.*, 2007: 192).

Various authors have studied the relationship between socio-demographic characteristics and tourism expenditure. From research conducted by Lee (2001: 660) on the marketing of the boating business, it is evident that an understanding of the nature of visitors is important. Socio-demographic factors play an important role in the expenditure levels of visitors. This research indicates that income and education are the most significant role-players. The findings of Jang *et al.* (2004: 333) on expenditure levels of Japanese tourists to the United States are that income, education, occupation and age are the socio-demographic characteristics that play an important role in tourist expenditure. According to Cannon and Ford (2002: 264), the socio-demographic variables that influence visitor spending are age, marital/family status, income, origin, group size activities and duration of trip. A study conducted by these authors on spending patterns of sport visitors to Alamo Bowl College football games, indicated that income was the most significant socio-demographic variable in visitor spending (Cannon and Ford, 2002: 270). Kastenholz (2005: 563) examined visitor spending in rural areas in Northern Portugal. This author's finding was that age is a significant variable in tourism expenditure. From the research conducted by Mok and Iverson (2000: 303) on Taiwanese spending in Guam, tourists were divided into three groups; light spenders, medium spenders and heavy spenders. The three groups were very similar with regard to socio-demographic variables. In all three groups, females formed the majority of the sample. The median income level for all three groups was over \$17 527 per annum. All three groups work for salaries (executive, professional, self-employed). Light and heavy spenders were aged 30 to 49 and married, whereas medium spenders were aged between 18 and 29 and single. Research done by Hanly and Wade (2007: 319) on North American tourists to Ireland indicates that the age of tourists and the exchange rate in the country of origin were found to be important variables in tourism expenditure. Davies and Mangan (1992: 698) developed a model to investigate the effect of income on holiday expenditure, and found that income has a positive effect on tourism expenditure and the number of children has a negative effect.

Socio-demographic variables can be used to explain travel behaviour and there is a significant relationship between variables (Horneman *et al.*, 2002: 22; Frew and Shaw, 1999: 200).



## Travel behaviour

Travel behaviour can be defined in terms of the collective characteristics that define the nature and extent of a trip. Travel behaviour consists of inclusive variables, such as the distance travelled (Nicolau and Más, 2006: 993; Witlox, 2007: 183), number of previous visits (Wang, 2004: 114), activity participation (Kim, Chen and O'Leary, 2007: 1370), value for money (Hutchinson, Fujun and Youcheng, 2009: 306) mode of transport (Plog, 2002: 246; Martin, 2007: 745; Alegre and Pou, 2006: 1343), purpose of visit (Awaritefe, 2004: 324) family life cycle (Bronner and De Hoog, 2008: 978) length of stay (Alegre and Pou, 2006: 1343; González and Bello, 2002: 60; Liu, 1999: 14) and trip information selection (Martin, 2007: 743).

Tourists' expenditure at a destination is a combination of products (game hunted) and services purchased at the destination (taxidermy, hunting permits). The purchase of one item causes another to be purchased and these include booking accommodation, mode of transport, organising visits to main attractions (Kozak *et al.*, 1998: 143-144; Fesenmaier and Jeng, 2000: 22; Lim, 1997: 842; Leeworthy, Wiley, English and Kriese, 2001: 86; Mok and Iverson, 2000: 301; Jang *et al.*, 2004: 334; Perez and Sampol, 2000: 630) and purchasing of goods such as game hunted and souvenirs (Mok and Iverson, 2000: 301; Spotts and Mahoney, 1991: 25).

Segmenting hunters into different target markets can be done according to their spending levels at the hunting destination. A number of authors have classified the determinants of spending as: spending per person (Leeworthy *et al.*, 2001: 86; Mok and Iverson, 2000: 304; Mules, 1998: 268; Agarwal and Yochum, 1999: 175), daily spending per person (Perez and Sampol, 2000: 628,635; Kastenholz, 2005: 258; Mules, 1998: 268; Pol, Pascual and Vazquez, 2006: 43; Agarwal and Yochum, 1999: 175) and total gross spending (Jang *et al.*, 2004: 338; Kastenholz, 2005: 563; Spotts and Mahoney, 1991: 31).

The amount of money that tourists are willing to spend when on holiday (hunting) is influenced by supply (amount of game available) and demand factors (what species the hunters want to hunt) (Kozak *et al.*, 1998: 144; Perez and Sampol, 2000: 635) and is interrelated with the length of stay (Alegre and Pou, 2006: 1353; Jang *et al.*, 2004: 338; Kastenholz, 2005: 563), group size and accommodation package (Kozak *et al.*, 1998: 144).

Individuals will have different behavioural patterns representative of their lifestyles. Categorisation of consumers is based on these differences between individuals (Pike, 2004: 4). A variety of influences affect their travel behaviour (Lu and Pas, 1999: 16). Behavioural indicators are also significant determinants in tourist spending. Behavioural patterns of hunters that will be significant to game farm owners, include number of hunters per group, number of hunting trips per annum, number of days spent hunting, members of a hunting association, dedicated hunter status, reason for hunting (biltong) and preferred province to hunt (Scholtz *et al.*, 2010: 33; Van der Merwe *et al.*, 2007: 188).

Further investigation reveals that other travel behaviour characteristics that also relate to tourism expenditure are country of origin and favourable exchange rates (Lim, 1997: 845; Kastenholz, 2005: 559; Perez and Sampol, 2000: 630; Beerli and Martin, 2004: 635; Richards, 2002: 1062), reason for travelling (Mok and Iverson, 2000: 302; Jang *et al.*, 2004: 334), destination attributes and characteristics (Dolniclair and Huybers, 2007: 44; Murphy, Beckendorff and Moscardo, 2007: 420; Campo and Garau, 2008: 89; Nicolau and Más, 2006: 984; Richards, 2002: 1048), location of destination (Song, Romilly and Liu, 2000: 613), mode of transport (Flogenfeldt, 1999: 121; Richards, 2002: 1062), relative prices, tourism prices and transport costs (Lim, 1997: 845).

Many factors lead tourists to choose a destination and understanding these factors is fundamental in marketing a tourist destination (Lam and Hsu, 2006: 589; Seddighi and Theocharous, 2002: 475; Reynolds and Braithwaite, 2001: 33). Today's consumers are becoming more and more sophisticated and knowledgeable due to technological advancement and global media that has radically changed the communication process. The global tourism industry has become increasingly competitive and service delivery in the tourism industry has become a key role-player in the success of any tourism-related establishment. To have a competitive edge, the tourism industry should focus on the needs of travellers and the products they prefer (game they want to hunt) (Hui, Wan and Ho, 2007: 965). It is imperative for marketers to constantly change so as to enhance their competitiveness (Jonker, Heath and Du Toit, 2004: 1; Pike, 2004: 73).

Marketing a tourist destination is a complex process that involves not only the attractions promoted, but the whole experience offered to the tourist (game that can be hunted). The

tourism experience comprises several service providers (accommodation establishments, transport companies, product offering, different species and number of species available, food and beverage services, entertainment) working together to offer the tourist a memorable experience (Buhalis, 2000: 113; Divisekera, 2003: 36). Therefore, the problem that arises is to determine the profile of hunters of the most popular hunting game species regarding income generating and biltong hunting.

## **METHOD OF RESEARCH**

The data used for the analysis were gathered over a five-month period between October 2007 and February 2008. The methodology used will now be discussed under the following headings: (i) the questionnaire, (ii) the method and (iii) the statistical analysis.

### **The questionnaire**

The questionnaire consisted mostly of closed-response questions, together with a small number of open-ended questions organised into a number of sections. The questionnaire was based on work of Van der Merwe and Saayman (2005). In Section A, demographic details were surveyed (marital status, age, gender, language, education, occupation, income and province of residence), while Section B focused on spending behaviour and motivational factors (number of persons paid for, number of times the destination has been visited, length of stay and amount spent). Thirty-seven items were tested in the question regarding animal species. The information obtained from these two sections was analysed.

### **Method**

Quantitative research was conducted and a probability sampling method was used. The research population and the sample consisted of all the members of the three largest hunting associations in South Africa, i.e. the South African Hunters and Game Conservation Association (SAHGCA) ( $N=21\ 000$ ), the Professional Hunters Association of South Africa (PHASA) ( $N=1\ 039$ ) and the national Confederation of Hunting Associations of South Africa (CHASA) ( $N=18\ 000$ ) ( $N = 40\ 000$ ), and a sample size of 676 was received back. The questionnaires were distributed as follows:

- Firstly, questionnaires were mailed to the members of the SA Hunters and Game Conservation Association along with their monthly magazine (*SA Hunters/Jagters*).
- Secondly, an interactive questionnaire was loaded onto the websites of SAHGCA, PHASA and CHASA during the months of September and October 2007.

In total, 676 (n) questionnaires were returned via email, fax and overland mail. Maree and Pietersen (2007) state that the number of units (n) involved in the sample is more important than the percentage of the total population they represent. An increase in the sample size, in proportion to the size of the population from which the sample is drawn, results in a decrease in the standard error. Even so, it is not necessary to draw a sample larger than 500 as this will have little effect in decreasing the standard error and margin of error (Maree and Pietersen, 2007).

### **Statistical analysis**

A statistical analysis was conducted using the SAS System for windows (SAS Institute Inc., 2002-2005). Descriptive statistics were used to indicate the profile of hunters hunting the five most popular game species hunted and the five highest income generating species. The five most popular species hunted during 2009 were springbok, impala, blesbok, blue wildebeest and kudu. The top five species regarding income generated during 2009 are kudu, blue wildebeest, eland, impala and gemsbok (Scholtz *et al.*, 2010: 17,18).

The results indicated that there is, for practical purposes, no difference in the socio-demographic profile of these hunters. This method provides simple summaries of the sample and the measures (Zikmund, 2003: 402). Frequency distribution was used for categories such as marital status, education, occupation and income. Frequency distribution shows the number of times that a variable's different values (or categories) occur in a sample (Maree and Pietersen, 2007: 184). The median was used to describe numerical data (e.g. age, number of times hunting and average length of stay). The median is the middle value in a dataset and is a more accurate assessment of the locality of the data where outliers exert a strong influence on a measure like the mean (Maree and Pietersen, 2007: 187).

## RESULTS

The results of the survey are discussed as follows: firstly, a profile of hunters will be given regarding the five most preferred species hunted (Table 2), and second to this, a profile of hunters pertaining to the top five income generating species will be provided. It is important to note that there are differences pertaining to the top five preferred biltong hunting species and the top five species that generate the biggest income.

**TABLE 1**  
**TOP INCOME AND MOST PREFERRED BILTONG SPECIES**

<b>Top five income generating species</b>	<b>Springbok</b> R358.97	<b>Blesbok</b> R798.09	<b>Impala</b> R609.92	<b>Kudu</b> R2235.02	<b>Blue wildebeest</b> R1840.32
<b>Most preferred species for biltong hunting</b>	<b>Gemsbok</b> R2335.76	<b>Blue wildebeest</b> R1840.32	<b>Eland</b> R3339.77	<b>Kudu</b> R2235.02	<b>Impala</b> R798.09

**TABLE 2**  
**DEMOGRAPHICS OF HUNTERS PERTAINING TO THE FIVE MOST POPULAR SPECIES HUNTED**

<b>Categories</b>	<b>Springbok</b>	<b>Blesbok</b>	<b>Impala</b>	<b>Kudu</b>	<b>Blue Wildebeest</b>
<b>Language</b>	Afrikaans (82.48%)	Afrikaans (81.98%)	Afrikaans (79.25%)	Afrikaans (82.09%)	Afrikaans (79.92%)
<b>Marital status</b>	Married (88.18%)	Married (87.95%)	Married (88.22%)	Married (90.08%)	Married (87.01%)
<b>Occupation</b>	Self-employed (24.70%)	Self-employed (24.62%)	Self-employed (23.32%)	Self-employed (27.84%)	Self-employed (29.44%)
<b>Average Age</b>	48 years	49 years	49 years	49 years	49 years
<b>Education</b>	Diploma/	Diploma/	Diploma/	Diploma/	Diploma/

	Degree (33.43%)	Degree (36.75%)	Degree (37.59%)	Degree (38%)	Degree (36.36%)
<b>Province of origin</b>	Gauteng (34.65%)	Gauteng (35.05%)	Gauteng (40.81%)	Gauteng (32.71%)	Gauteng (47.27%)
<b>Annual income</b>	R400 000	R400 000	R400 000	R400 000	R450 000
<b>People in group</b>	4 people	4 people	4 people	4 people	4 people
<b>Length of stay</b>	4 days	4 days	4 days	4 days	4 days
<b>Times hunted</b>	3 times	4 times	3 times	4 times	4 times
<b>Preferred province</b>	Northern Cape (23.12%) Limpopo (21.02%)	Limpopo (20.36%) Northern Cape (16.17%)	Limpopo (40.05%) KwaZulu- Natal (16.71%)	Limpopo (33.87%) Eastern Cape (16.53%)	Limpopo (38.82%) North West/ KwaZulu- Natal (14.12%)

### *Hunters' demographics pertaining to the five most popular species hunted*

The top five game species hunted by South African biltong hunters are springbok, blesbok, impala, kudu and blue wildebeest. For these five species, the profiles of hunters who hunt them were alike – Afrikaans-speaking, married, males with an average age of 49 with a diploma and self-employed with an average annual income of R400 000.00, hunting in groups of four people, staying for an average of four days and hunting three to four times a year. From a location point of view, the results of this research revealed that for the top five species, hunters in all cases originate from Gauteng. This correlates with research by Van der Merwe and Saayman (2008: 8) and Scholtz *et al.* (2010: 7), which showed that the majority of hunters in South Africa are from Gauteng, which is also the economic hub of South Africa.

The preferred species are mainly hunted in two provinces, namely Limpopo (blesbok, impala, kudu and blue wildebeest) and the Northern Cape Province (springbok). Looking at the Limpopo Province, the following reasons can apply. Firstly, three of the five species, i.e. kudu, impala and blue wildebeest are mainly found in this area due to the habitat (bushveld) of which impala as well as kudu are predominantly browsers. Second to this, 50% of all game farms are found in this province (Van Niekerk, 2006: 51; Bothma, 2002: 480; Van der Merwe and Saayman, 2003: 104; Steenkamp, Marnewick and Marnewick, 2005: 27). Limpopo is the third largest province with an area of 125 755 km<sup>2</sup> and is a province of striking contrasts: heavily used land in the former homelands of Lebowa, Gazankulu and Venda is a sharp contrast to lightly-populated districts where almost all farm land is devoted to game farming or ecotourism (Brett, 2010: 182). The biodiversity of this province also contributes to the ability to host a variety of species and therefore more species are more frequently available in the Limpopo province. It is, however, important to note that blesbok is also among the species hunted in Limpopo, although it is originally a species that is commonly found in the Free State, due to its grasslands (blesbok are grazers) (Marchant, 2011; Estes, 1992: 147).

The only exception for the most preferred species was for springbok, which is predominantly hunted and found in the Northern Cape Province, Kalahari and Karoo regions. The arid Northern Cape occupies 30% of South Africa, but supports less than 3% of the country's human population (Brett, 2010: 62). The vegetation of approximately half of the province is defined as Nama Karoo, a vast, scrubland plateau fringed by mountain ranges. The internationally recognised biodiversity „hotspot“, the Succulent Karoo, extends in a broad corridor down the west coast (Mucina and Rutherford, 2006: 32). Game farms in the Northern Cape extend over an estimated 4 852 053 hectares, covering a larger surface area than game farms in the rest of South Africa (Van der Merwe and Saayman, 2003: 104).

**TABLE 3**  
**AVERAGE EXPENDITURE (IN RANDS) PER HUNTER PERTAINING TO THE**  
**MOST PREFERRED GAME SPECIES HUNTED**

	<b>Springbok</b>	<b>Blesbok</b>	<b>Impala</b>	<b>Kudu</b>	<b>Blue wildebeest</b>
<b>Average price per species</b>	R300.00	R650.00	R650.00	R2 500.00	R2 200.00
<b>Accommodatio n</b>	R1 500.00	R1 200.00	R1 600.00	R1 500.00	R2 000.00
<b>Fuel</b>	R1 800.00	R1 500.00	R1 300.00	R1 500.00	R1 500.00
<b>Food</b>	R800.00	R600.00	R900.00	R900.00	R1 000.00
<b>Beverages</b>	R400.00	R300.00	R400.00	R400.00	R500.00
<b>Toiletries</b>	R50.00	R50.00	R50.00	R50.00	R100.00
<b>Ammunition</b>	R500.00	R445.00	R500.00	R400.00	R500.00
<b>Clothes</b>	R200.00	R150.00	R200.00	R200.00	R200.00
<b>Gear</b>	R200.00	R100.00	R200.00	R200.00	R200.00
<b>Butchery</b>	R50.00	R0.00	R0.00	R0.00	R100.00
<b>Meat process</b>	R500.00	R400.00	R500.00	R500.00	R500.00
<b>Daily fees</b>	R120.00	R90.00	R50.00	R50.00	R0.00
<b>Total expenses</b>	R8 687.50	R7 225.00	R8 500.00	R8 547.50	R10 000.00

The level of economic impact of hunters at a specific destination is related to the number of visitors and their level of expenditure. Hunters at a specific hunting destination originate from different provinces. Total estimated expenditure of these hunters is detailed in Table 3. Average expenditure consists of money spent on accommodation, fuel, alcohol and beverages, tobacco products, medicine, toiletries, ammunition, clothing, hunting gear excluding ammunition, butchery facilities, meat processing, daily fees and other expenditure. From the results it is clear that most money is spent on accommodation and fuel. Blue wildebeest hunters account for the highest average expenditure, therefore making blue wildebeest a profitable species to have on game farms.



**TABLE 4**  
**DEMOGRAPHICS OF HUNTERS PERTAINING TO HIGHEST INCOME**  
**GENERATING SPECIES**

	<b>Gemsbok</b>	<b>Blue Wildebeest</b>	<b>Eland</b>	<b>Kudu</b>	<b>Impala</b>
<b>Language</b>	Afrikaans (86.15%)	Afrikaans (79.92%)	Afrikaans (81.91%)	Afrikaans (82.09%)	Afrikaans (79.25%)
<b>Marital status</b>	Married (89.74%)	Married (87.01%)	Married (93.62%)	Married (90.08%)	Married (88.22%)
<b>Occupation</b>	Self-employed (29.47%)	Self-employed (29.44%)	Self-employed (24.70%)	Self-employed (27.84%)	Self-employed (23.32%)
<b>Average age</b>	48 years	49 years	46.50 years	49 years	49 years
<b>Education</b>	Diploma/Degree (36.41%)	Diploma/Degree (36.36%)	Diploma/Degree (31.52%)	Diploma/Degree (38%)	Diploma/Degree (37.59%)
<b>Province of origin</b>	Gauteng (35.75%)	Gauteng (47.27%)	Gauteng (37.63%)	Gauteng (32.71%)	Gauteng (40.81%)
<b>Annual income</b>	R445 000.00	R450 00.00	R400 000.00	R400 000.00	R400 000.00
<b>People in group</b>	4 people	4 people	4 people	4 people	4 people
<b>Length of stay</b>	4 days	4 days	4 days	4 days	4 days
<b>Times hunt</b>	4 times	4 times	4 times	4 times	3 times
<b>Preferred province</b>	Limpopo (35.75%) North West (23.35%)	Limpopo (38.82%) North West/KwaZulu- Natal (14.12%)	Limpopo (39.36%) KwaZulu- Natal/Northern Cape (14.89%)	Limpopo (33.87) Eastern Cape (16.53%)	Limpopo (40.05%) KwaZulu-Natal (16.71%)

***Hunters' profile pertaining to the five highest income generating species***

The top five income generating species for biltong hunting in South Africa are gemsbok (oryx), blue wildebeest, eland, kudu and impala. For all five species, the profile of hunters remains similar. Afrikaans-speaking, married males, with an average age of between 46 and 49, well educated with either a diploma or degree and are self-employed. Hunters hunting gemsbok and blue wildebeest had a slightly higher income than eland, kudu and impala hunters. Hunters hunt in groups of four people, stay for an average of four days and hunt three to four times a year. From a location point of view, it is important to identify the origin of these hunters. The results of this research revealed that most hunters originate from Gauteng and the preferred province for hunting is the Limpopo Province, which was also the case with preferred species. It is interesting to note that gemsbok, which is traditionally found in the Kalahari region of the Northern Cape, also sorted under the Limpopo Province (Skinner and Chimimba, 2005: 667; Anderson, Carr, Hall-Martin, Joubert, Keep, Lloyd and Vrahimis, 1989: 58).

**TABLE 5**  
**TOTAL AVERAGE EXPENDITURE (IN RANDS) PER HUNTER ACCORDING TO**  
**HIGHEST INCOME GENERATING SPECIES**

	<b>Gemsbok</b>	<b>Blue Wildebeest</b>	<b>Eland</b>	<b>Kudu</b>	<b>Impala</b>
<b>Average price per species</b>	R2 250.00	R2 200.00	R4 500.00	R2 500.00	R650.00
<b>Accommodation</b>	R1 500.00	R2 000.00	R1 500.00	R1 500.00	R1 600.00
<b>Fuel</b>	R2 000.00	R1 500.00	R2 000.00	R1 500.00	R1 300.00
<b>Food</b>	R1 000.00	R1 000.00	R1 000.00	R900.00	R900.00
<b>Beverages</b>	R500.00	R500.00	R500.00	R400.00	R400.00
<b>Toiletries</b>	R50.00	R100.00	R100.00	R50.00	R50.00
<b>Ammunition</b>	R500.00	R500.00	R500.00	R400.00	R500.00
<b>Clothes</b>	R250.00	R200.00	R300.00	R200.00	R200.00
<b>Gear</b>	R200.00	R200.00	R300.00	R200.00	R200.00
<b>Butchery</b>	R100.00	R100.00	R75.00	R0.00	R0.00
<b>Meat process</b>	R500.00	R500.00	R400.00	R500.00	R500.00

<b>Daily fees</b>	R10.00	R0.00	R0.00	R50.00	R50.00
<b>Total expenses</b>	R9 300.00	R10 000.00	R9 200.00	R8 547.50	R8 500.00

The level of economic impact of tourists at a specific destination is related to the number of visitors and their level of expenditure. Hunters at a specific hunting destination originate from different provinces. Total estimated expenditure of these hunters is detailed in Table 5. Average expenditure consists of money spent on accommodation, fuel, alcohol and beverages, tobacco products, medicine, toiletries, ammunition, clothing, hunting gear excluding ammunition, butchery facilities, meat processing, daily fees and other expenditure. From the results it is clear that the most money is spent on accommodation and fuel. Blue wildebeest hunters account for the highest average expenditure.

## **FINDINGS AND IMPLICATIONS**

Firstly, it is found by the research that gemsbok (oryx), blue wildebeest and eland are the species that generate the most income, because these species are larger, cost more and are favoured by biltong hunters (Scholtz *et al.*, 2010: 18; Radder *et al.*, 2000: 25; Eloff, 2002: 19,21; Flack, 2010: 191). The implication for game farm owners is that these species need to be part of their species on offer, which will assist game farm owners to generate more income, where applicable.

Secondly, statistically there is little difference between the profile of hunters of preferred *species* and of *highest income generating species*. The profile of both categories is as follows: Afrikaans-speaking, married males, with an average age of 49 years. These hunters have a diploma or degree and are self-employed. They reside in Gauteng and hunt in the Limpopo Province. Hunting is a social and cultural activity with most hunters hunting in groups of three or four people (Van der Merwe *et al.*, 2007: 189; Van der Merwe and Saayman, 2003: 110; Eloff, 1999: 23; Radder *et al.*, 2000: 27; Radder and Bech-Larsen, 2008: 260). The implications of the findings are therefore that game farm owners and potential owners can use this profile to develop better hunting products to suit the profile of hunters.

Thirdly, results of this research revealed that, in both situations, most hunters originate from Gauteng (Van der Merwe, and Saayman, 2008: 8; Scholz *et al.*, 2010: 7). This may be attributed to Gauteng being the province with the highest income levels in South Africa

(Saayman and Saayman, 2006: 578). Therefore, the implication is that marketers should focus their attention on attracting more hunters by directing advertising material to the Gauteng region.

Fourthly, the preferred province of hunting for the most preferred species for biltong hunters and income generating species is the Limpopo Province (Van der Merwe *et al.*, 2007: 188; Van der Merwe and Saayman, 2008: 15; Scholtz *et al.*, 2010: 13). The implication from a development point of view is that this is the ideal province for establishing a game farm. From an economic point of view, the Limpopo Province is also the most lucrative area to develop a game farm as it is closely situated to Gauteng, which hosts the most hunters (Van der Merwe and Saayman, 2008: 8; Scholz *et al.*, 2010: 7).

Fifthly, the expenditure of blesbok hunters is lower than the rest (Table 2). This might be because blesbok are found in Gauteng and almost everywhere except for the Western Cape (Stuart and Stuart, 2007: 230). Blesbok are used as common species on all the private game reserves in the Eastern Cape to protect the more expensive antelope from lion predation (Hayward, O'Brien and Kerley, 2007: 227). Therefore, the implication is that game farm owners should put the emphasis on species other than blesbok when advertising their product so as to gain higher revenue from species hunted.

Lastly, the only species that is not hunted within the Limpopo Province, but in the Northern Cape, is springbok. The implication therefore is that game farms in the Northern Cape can market it as a species that is preferentially hunted in this province. From an economic point of view, it would make little sense to host this species in the Limpopo Province as hunters will prefer to hunt it in the Northern Cape.

## **CONCLUSION**

The aim of this chapter was to determine the popular game species hunted for biltong purposes in South Africa. Descriptive statistics were used to indicate the profile of hunters hunting the five most popular game species and the five highest income generating species. The main findings of this research indicated that common game species such as springbok, blesbok, impala and kudu are the most hunted for biltong.

Gemsbok (oryx) and blue wildebeest appeal to biltong hunters with a higher income. This would be expected because these species are larger and cost more than species such as impala and springbok (Vleissentraal, 2011). With the growth in the game industry, gemsbok that was traditionally hunted in the Northern Cape have been extensively reintroduced to game farms in the more arid savannas of Limpopo, and protected areas such as Pilanesberg, and surplus animals have been obtained from the Northern Cape and Namibia (Skinner and Chimimba, 2005: 667; Anderson *et al.*, 1989: 58).

Game has an economic value and is therefore worth conserving on a game farm. The economic value also means that farmers now restock their land with game. Biltong hunters are not just following a hobby, but are making economic decisions. This can partly be seen in the distances travelled. Biltong hunters are weighing up the costs of the experience against the benefits. Price is very important to these hunters. This can be seen in the fact that common species are mostly hunted in each province and this varies from province to province. In Limpopo and KwaZulu-Natal, impala are the most common species, while in the Northern Cape, springbok is the most common. It can be argued that biltong hunters definitely enjoy the overall experience, but that many would simply buy biltong at the local butchery if the cost benefit equation was drastically altered (Eloff, 2002: 19). Biltong hunting is an „evergreen“ attraction that requires very little to attract customers – a variety of game, affordability, accessibility, rustic camps, a bush atmosphere, and carcass processing facilities.

This research contributes to the game farm industry in that it determines which species generate the greatest income for game farms. Understanding which species generate the greatest income and are more popular than others for hunters will enable game farmers to host these species and, as a result, meet the needs and expectations of hunters, thereby generating more revenue (Eloff, 1999: 22, Radder, 2001: 176; ABSA, 2003: 17).

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# TRACKING MILLENNIUM POVERTY REDUCTION AT LOCAL GOVERNMENT LEVEL: A CASE OF KWAZULU-NATAL

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Key words:

- a. Millennium Development Goals (MDGs)
- b. Poverty reduction
- c. Local development
- d. Case study research methodology

# **TRACKING MILLENNIUM POVERTY REDUCTION AT LOCAL GOVERNMENT LEVEL: A CASE OF KWAZULU-NATAL**

**Abstract:** The purpose of this paper is to analyse the poverty reduction programme implemented by the Province of KwaZulu-Natal in South Africa. KwaZulu-Natal was chosen as a case study because it is the largest province in South Africa with the highest proportion of poverty stricken households. The prevalence of poverty in the province provides a close-up view of the bottlenecks and challenges faced by the South African government in addressing poverty. The study is organised around two research questions germane to tracking poverty reduction bottlenecks. The first question is: How are the Millennium Development Goals localised to meet the needs of people living in the province of KwaZulu-Natal? The second question is: Why has the increase in household income in the province of KwaZulu-Natal not had a substantive impact on poverty rates in the region? This study is based on Kathleen Eisenhardt's framework that describes a method for building theories from case study research. On the basis of data that emerges in addressing this study's two research questions, the paper seeks to develop a framework for tracking millennium poverty reduction interventions at local government level.

## **Introduction**

Poverty remains one of South Africa's development challenges attributed to the legacy of inequality and marginalisation. The recent global economic crisis has further intensified the poverty crisis not only in South Africa, but in the entire sub-Saharan (World Bank 2010). With the socio-economic backlogs and limited resources there are some who believe that the Millennium Poverty Reduction target to halve poverty by 2015 will not be reached without an urgent and drastic action by multiple stakeholders at local, national and international levels (Hyden, 2007; UNDP 2010). Against this background, this paper analyses the poverty reduction programme implemented by the Province of KwaZulu-Natal in South Africa with the aim of developing a framework for tracking millennium poverty reduction interventions at local level. KwaZulu-Natal was chosen as a case study because it is the largest province in South Africa with the highest proportion of poverty stricken households. The prevalence of poverty in the province provides a close-up view of the bottlenecks and challenges faced by the South African government in addressing poverty.



## **Problem investigated**

The study is organised around two research questions germane to tracking poverty reduction bottlenecks. The first question is, how are the Millennium Development goals localised to meet the needs of people living in the province of KwaZulu-Natal? The second question is shaped by evidence from literature that shows that while household income has been rising since access to social security was expanded to meet the needs of the majority, more than half the population of South Africa is still poor (Hyden, 2007; Economic Commission for Africa, 2003). The question is: why has the increase in household income in the province of KwaZulu-Natal not had a substantive impact on poverty rates in the region?

This study is based on Kathleen Eisenhardt's framework for describing a method for building theories from case study research. On the basis of data that emerges in addressing the study's two research questions, the paper seeks to develop a framework for tracking millennium poverty reduction interventions at local government level.

The paper is organised as follows: The first part presents literature on poverty reduction at global level. This is followed by a section that reflects on poverty reduction approaches taken by South Africa and the Province of Kwa-Zulu Natal. The third part of the paper describes the methodology followed to conduct the study. The paper will then present the case study findings and concludes by reflecting on the dimensions that emerge from the study and a proposed framework for tracking poverty reduction bottlenecks at local level.

## **Literature Review**

### *The Global Context*

In September 2000, a gathering of 189 world leaders representing a human family of approximately six billion people adopted the United Nation Millennium Declaration, committing their nations to a global partnership to reduce extreme poverty. Eight global development goals that are referred to as the Millennium Development Goals (MDGs) were set with a target deadline of 2015 (UN, 2000). These include: (1) to eradicate extreme poverty and hunger; (2) to achieve universal primary education; (3) to promote gender equality and empower women; (4) to reduce child mortality; (5) to improve maternal health; (6) To combat HIV/AIDS, malaria and other diseases; (7) to ensure environmental sustainability; and (8) to develop a global partnership for development (UN, 2009).

The Millennium Declaration signed by world leaders states that:

*“We will spare no effort to free our fellow men, women and children from the abject and dehumanizing conditions of extreme poverty, to which more than a billion of them are currently subjected. We are committed to making the right to development a reality for everyone and to freeing the entire human race from want.”* (UNDP, 2005).

The blueprint for eradication of poverty was reviewed again in 2005 at a Millennium Summit held in New York. The United Nations 2005 Report on MDG progress shows a reduction on global poverty led by Asia, with sub-Saharan Africa still having a long way to go towards achieving universal primary education (MDG 2). Table 1 below outlines the three targets and nine key indicators for the poverty reduction goal.

**Table 1: Targets and Key Indicators for the Poverty Reduction Goal**

<b>Millennium Development Goal Targets</b>	<b>Key Indicators</b>
1. Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day	a. Proportion of population below \$1 per person per day (ppp) b. Poverty gap ratio c. Share of poorest quintile in national consumption
2. Achieve full and productive employment and decent work for all, including women and young people	d. Growth rate of GDP per person employed e. Employment-to-population ratio f. Proportion of employed people living below \$1 (ppp) g. Proportion of own-account and contributing family workers in total employment
3. Halve, between 1990 and 2015, the proportion of people who suffer from hunger	h. prevalence of underweight children under-five years of age i. Proportion of population below minimum level of dietary energy consumption

*Source: United Nations (2005). Official list of MDG Indicators.*

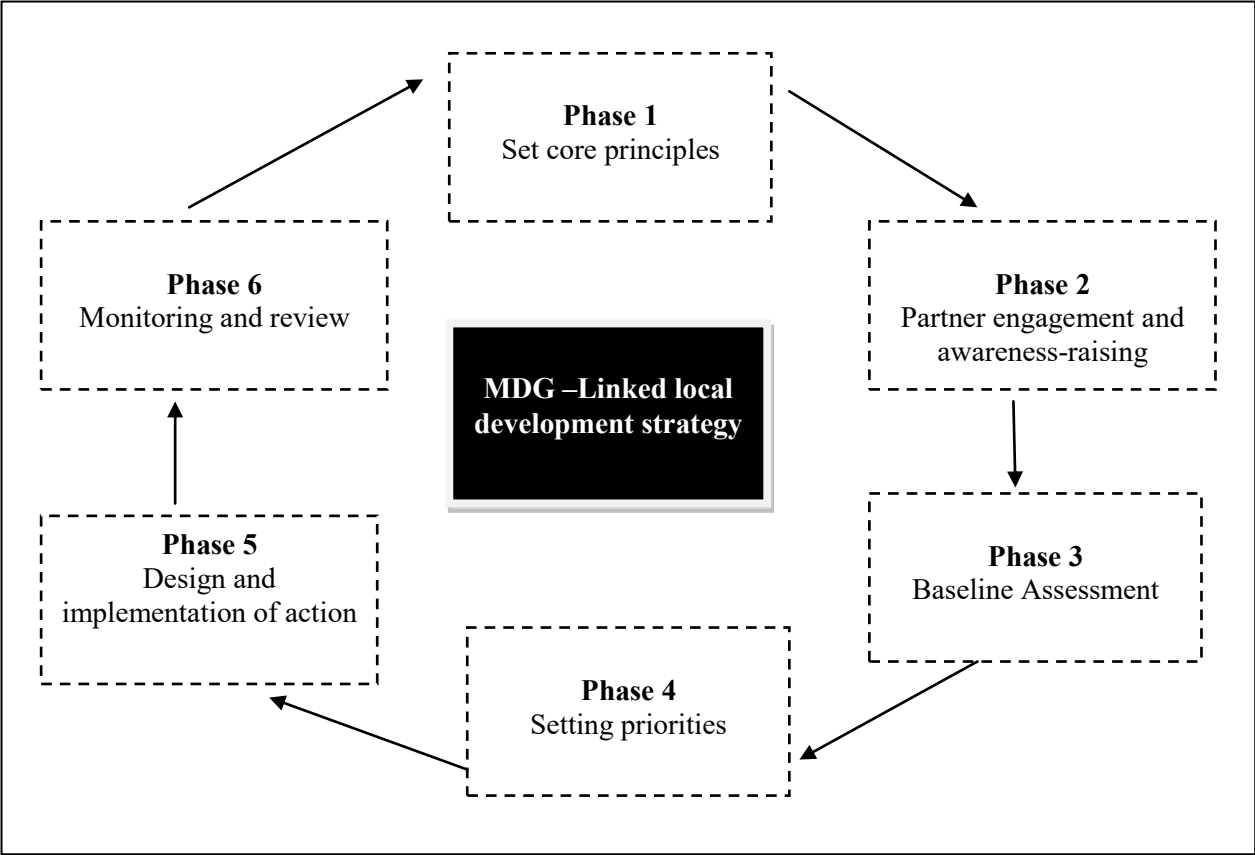
<http://mdgs.un.org/unsd/mdg/Resources/Attach/Indicators/OfficialList2008.pdf>

With regards to gender equality (MDG 3), the report showed that women represent a smaller share of wage earners than men with 16 percent of parliamentary seats world-wide. Notwithstanding lack of representation of women at the highest levels of government, Africa reports the highest rate of progress compared to other regions (UN Economic and Social Council Economic Commission for Africa, 2008). The UN Report also shows that eleven

million children a year die from preventable causes with AIDS being the leading cause of premature deaths in sub-Saharan Africa.

At the 2005 World Summit, Heads of States placed strong emphasis on the need to strengthen the capacity of countries towards achieving the MDGs (UNDP, 2005). Lessons learnt from various global reports show the importance of driving MDG strategic plans at local level. It is argued that local governments being closest to the poor, are best placed to implement policies to make MDGs locally relevant (UNDP, 2005). It is in light of facilitating full participation and buy-in at local level that the UNDP Toolkit for localising the Millennium Development Goals was developed (see Figure 1). The toolkit provides action frameworks and general guidance on implementing MDGs at local community level. Figure 1 provides a summary of the six phases for developing an MDG-linked local development strategy. The toolkit places much emphasis on sound local governance system grounded in integrated local development.

**Figure 1: Six-phase MDG-linked local development strategy as per UNDP Toolkit**



Source: Adapted from UNDP (2005). *Toolkit for Localising the Millennium Development Goals*. New York, Bratislava, p20.

Establishing the core governance principles is the second step of the MDG-linked local strategy. This step enables effective stakeholder and partner engagement. Although it is not always possible to implement the different phases in a linear fashion, there is a strong case for implementing the core principles of the phases sequentially in order to strengthen the foundation on which subsequent phases are developed. For example, it is not possible to effectively establish priorities and core activities to improve the chances of achieving MDG targets (Phase 4) without setting core principles to guide operations (Phase 1) and engaging local stakeholders meaningfully (Phase 2).

The localisation approach is not without criticism. Satterthwaite and Sauter (2008) identified several barriers to poverty reduction at local level. Top in their list is what they refer to as: “*unrepresentative and unaccountable local governments*” (Satterthwaite and Sauter (2008, p.7) as well as the “*anti-poor attitudes of local politicians and bureaucracies*”. The authors cite examples in which local government can be anti-poor. These range from poor service delivery, corruption, failure to support community-managed safety nets to using poverty measurement based on national samples with no relevant indicators for local communities. The Toolkit for localising the MDGs identifies a number of obstacles in implementing MDG-linked local development strategy. These obstacles are linked amongst others, to issues of capacity and competence, governance, lack of national enabling environment, lack of information and public awareness, as well as blocks to fiscal decentralisation.

Millennium Development Goal reports generated in the 2010 World Summit show a number of synergies among MDGs. For example a recent United Nations report that reviews MDG progress in 50 countries shows that acceleration in one MDG speeds up progress in others (UNDP, 2010). South Africa also makes a link between the poverty reduction goal (MDG1) and primary health, empowerment of women and child mortality (South Africa, 2010). It is a well known fact that children born to mothers without formal education are more likely to suffer from malnutrition than babies born to mothers who have completed primary school (UNDP, 2000). As women become educated, they not only expand choices open to them (UN, 2000), their skills and income also increase. Likewise, their children are more likely to gain access to better nutrition, health-care and education.

Achieving the education targets, as set out in the second millennium development goal, is not the only area that illustrates how MDGs are intertwined. A strong link between women empowerment, which corresponds to MDG 3, and HIV, which corresponds to MDG 6, has been made (UNAIDS, 2008). Research has shown that social norms that disempower women, such as gender discrimination, domestic violence and transactional sex, have been found to be among the causes of HIV infection (UNAIDS, 2008; Team, 2009). The UNDP (2010) Report that looked into MDG progress in 50 countries also cites a number of examples where MDG synergies have been observed. For example, HIV and AIDS has resulted in a sharp decline in breastfeeding rates in Botswana, and stunted growth of children in Lesotho, resulting in increased rate of child mortality (UNDP, 2010). Additionally, investment in techniques that enhance agricultural productivity has been found to reduce hunger and improve the health and education status of households (UNDP, 2010). Such evidence further strengthens the notion that MDGs can no longer be viewed in silos. The multisectoral approach in implementing the goals impacts across all MDGs (UNDP, 2005; UNDP 2010; Economic Commission for Africa 2003).

Knowledge on successful experiences and bottlenecks has been accumulated at a global scale by the United Nations Development Programme through the MDG Acceleration Framework. The MDG Acceleration Framework is a systematic process of identifying bottlenecks through a guided consultation process that leads to the development of high impact solutions (UNDP, 2010b). UNDP (2010b, p.94) define bottlenecks as “*proximate and removable constraints that impede implementation of MDG related interventions*”.

Ten countries participated as pilots in the roll-out of the Acceleration Framework. These include, Belize, Colombia, Ghana, Jordan, Lao PDR, Papua New Guinea, Tajikistan, Tanzania, Togo and Uganda. To facilitate successful implementation of the MDG Acceleration Framework steps, each of the ten pilot countries set-up a national technical team comprised of relevant government officials, academics and experts from different components of the United Nations (UNDP, UNICEF, UNFPA, WHO, etc.).

Several lessons have been drawn from the MDG Acceleration Framework. Firstly, when considering interventions and solutions to bring MDGs back on track, due consideration for financial and environmental sustainability has been found to be key to maintaining gains over a long period of time. Secondly, strong leadership and ownership at highest government

levels ensures that MDG Acceleration Framework objectives are integrated into the country's objectives to meet development needs. Consultation, buy-in and broad participation of local actors was found to improve the quality and effectiveness of solutions. The expertise and knowledge of the technical team was also found to contribute significantly to the successful implementation of Acceleration Framework action plans (UNDP, 2010b).

### *The Local Context*

#### *South Africa*

South Africa is a middle income country with GDP of \$248 billion and GDP per capita of \$5,168 (Statistics South Africa, Income and Expenditure Survey, 2006). The agenda for poverty reduction emerged as a dominant theme in the South African policy framework after the first democratic elections in 1994. As suggested by Hunter, May and Padayachee (2003, p.3), poverty reduction policies in South Africa have to be viewed from the perspective of context specific causes of poverty which include:

*“The impact of apartheid which stripped people of their assets, especially land, distorted economic markets and social institutions through racial discrimination, and resulted in violence and destabilisation; the undermining of the asset base of individuals, households and communities through ill health, over-crowding, environmental degradation, the mis-match of resources and opportunities, race and gender discrimination and social isolation; the impact of a disabling, state which included the behaviour and attitudes of government officials, the absence of information concerning roles and responsibilities, and the lack of accountability by all levels of government.”*

The 1913 Natives Land Act was an important part of the apartheid system. The Act was the start of legalised oppression of majority by the minority. It created a system that deprived the majority of South Africans the right to own their land. In 1936 the Black Trust and Land Act allocated 13% of South Africa to Black people who formed 80% of the population (Adams, Cousins and Manona,1999). The extent of the impact of the 1913 Act and the 1936 Black Trust and Land is aptly described by de Villiers (2003, p.46) in the following statement: *“the impact of this policy on the whole social, economic and political fabric of South African society is impossible to measure; the resentment it caused is too deep to fathom, its scars too sensitive to touch.”*

The attainment of democracy in 1994 provided a window of opportunity to change the development trajectory of the country. The past 16 years saw development of policies and fiscal instruments that allocated substantially to social sectors and disadvantaged groups. Of

paramount importance is the Medium Term Strategic Framework, which identifies the development challenges facing South Africa and prioritise plans for improving the quality of life of all South Africans. The Medium Term Strategic Framework (2009-2014) commits the South African government to a comprehensive development strategy to redress the inequities of the past and meet the development needs of all South Africans. The Strategic Framework through its ten priorities provides an anchor to the national MDG programme. Table 2 outlines the ten Medium Term Strategic priorities with corresponding MDGs.

The translation of Millennium Development Goals into strategic priorities makes poverty reduction and development a legitimate political and socio-economic objective. The South African government's commitment to poverty reduction is demonstrated in the comprehensive approach the country took, which includes targeted pro-poor state expenditure in social security through income support, primary health care, compulsory education, provision of subsidised housing, electricity and water. The income support programmes include the child support grant, the disability grant, the foster care grant, care dependency and grant in aid. According to the Public Service Commission there are over 29,000 government funded project that have been established with the aim of reducing poverty (Public Service Commission, 2007).

Land reform is another example of a government-led policy initiative to redress the injustices of the past. The Land reform is based on three pillars: (1) restoration of rights of ancestral land; (2) acquisition of land; and (3) securing-tenure to land (de Villier, 2003). Land reform has made some difference albeit without successfully transforming the sector as was expected. Some scholars have acknowledged that it will take decades, even generations to transform land-ownership in South Africa because of the extent of dispossession and the low quality of land available in communal areas (de Villiers, 2003; Adams, Cousins and Manona, 1999). The government interventions and policy initiatives yielded positive impacts on poverty. The number of people who were able to access social grants increased from 2.6 million people in 1997 to more than 13 million people in 2010 (South Africa, 2010). The country's 2010 MDG report also notes that the proportion of the population below the United Nation's poverty indicator of \$1 per day has declined from 11.3 in 2000 to 5.0 in 2006; 460 000 more consumer units had access to basic electricity between 2007 and 2008.

**Table 2: Linkage between South Africa’s national development planning and the MDGs**

<b>Medium Term Strategic Elements</b>		<b>Relevant MDGs</b>
1.	Strategic priority 1: Speeding up growth and transforming the economy to create decent work and sustainable livelihoods	MDG 1, MDG 2, MDG 3, MDG8
2.	Strategic Priority 2: Massive programme to build economic and social infrastructure	MDG 1, MDG3, MDG8
3.	Strategic priority 3: Comprehensive rural development strategy linked to land and agrarian reform and food security	MDG 1, MDG 2, MDG 7
4.	Strategic Priority 4: Strengthen the skills and human resource base	MDG 2
5.	Strategic Priority 5: Improve the health profile of al South Africans	MDG 4, MDG 5, MDG 6
6.	Strategic Priority 6: Intensify the fight against crime and corruption	MDG 2, MDG 3
7.	Strategic Priority 7: Build cohesive, caring and sustainable communities	MDG 2, MDG 3, MDG 7
8.	Strategic Priority 8: Pursuing African advancement and enhanced international cooperation	MDG 8
9.	Strategic Priority 9: Sustainable resource management and use	MDG2, MDG 3, MDG 7
10.	Strategic Priority 10: Building a developmental state including improvement of public services and strengthening democratic institutions	MDG 1, MDG 2, MDG 3, MDG 8

*Source:* Republic of South Africa (2003). *Towards a Ten Year Review: Synthesis report on implementation of Government programmes*, Pretoria: The Presidency [www.10years.gov.za/review/documents.htm](http://www.10years.gov.za/review/documents.htm).

Notwithstanding the best efforts from the South African government there continues to be a number of challenges hindering successful poverty reduction. As outlined in Table 3, out of the nine poverty reduction indicators, two targets have been met – the proportion of the population below \$1 per person per day (5.7), and the poverty gap ration of \$1.25 per person per day (1.6). Four targets are not likely to be met. These relate to the share of poorest quintile in national consumption; employment to population ratio; prevalence of underweight children under five years of age and proportion of population below minimum level of dietary energy.



Table 3: Millennium Poverty Reduction Target, Baseline and Current Status

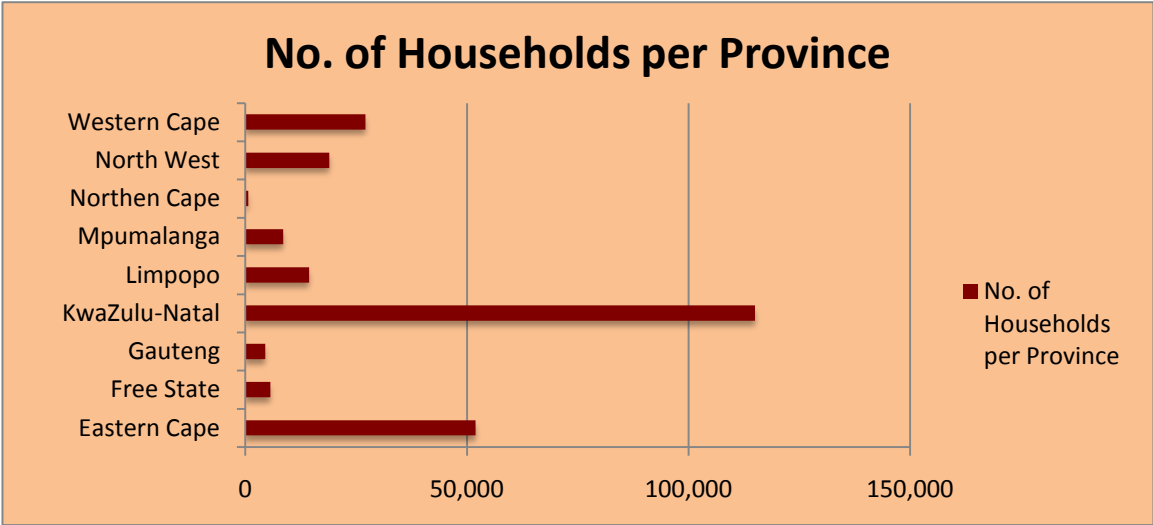
Millennium Development Goal Targets	Key Indicators	1994 Baseline (or closest year)	Current status (2010 or nearest year)	2015 target	Target achievability
1. Halve the proportion of people whose income is less than one dollar a day	a. Proportion of population below \$1 per person per day (ppp)	11.3 (2000)	5.0 (2006)	5.7	Achieved
	b. Poverty gap ratio (1\$ ppp)	3.2 (2000)	1.1 (2006)	1.6	Achieved
	c. Share of poorest quintile in national consumption	2.9	2.8	5.8	Unlikely
2. Achieve full and productive employment and decent work for all, including women and young people	d. Growth rate of GDP per person employed	4.7 (2000)	1.9 (2006)	6.0	possible
	e. Employment-to-population ratio	41.5 (2003)	42.5 (2009)	50-70	unlikely
	f. Proportion of employed people living below \$1 (ppp)	5.2 (2000)	No data	~ 0	unlikely
	g. Proportion of own-account and contributing family workers in total employment	11 (2001)	9.9 (2010)	~ 5	possible
3. Halve, between 1990 and 2015, the proportion of people who suffer from hunger	h. Prevalence of underweight children under-five years of age	9.3 (1994)	10.2 (2005)	4.7	Unlikely
	i. Proportion of population below minimum level of dietary energy consumption	No data	No data	No target	Unknown

Source: Adapted from [www.10years.gov.za/review/documents.htm](http://www.10years.gov.za/review/documents.htm).

A ten year review of antipoverty programmes (Republic of South Africa, 2003) shed some light on the obstacles hindering successful implementation of poverty reduction interventions. It was found that many who are eligible to receive grants were either not registered or poorly serviced. This prompted the government to embark on a „War on Poverty“ campaign as part of the process to meet the poverty reduction millennium targets. The approach that the campaign followed was to profile households to identify the government services that

individuals within those households are eligible for but are not receiving. The household profiles would then be used to develop interventions relevant to the needs of the particular household. Statistics South Africa provided the technical and administrative expertise in collecting data from identified communities and households (Bua Briefs, 2010). KwaZulu-Natal has the highest number of households (2.09 million) as illustrated in Figure 2.

Figure 2: No of Households per Province



Source: The Draft War on Poverty Business Plan, 2010-2014 *Magaliesburg 22-24 February 2010*. KZN Premier’s Office: Pietermaritzburg

**KwaZulu-Natal**

Kwa-Zulu Natal is the largest province in South Africa with a total population of 8,991,109 people (Statistics South Africa, 2003). The province is divided into eleven district municipalities (see Table 4). These are Ugu, Sisonke, Umgungundlovu, Uthukela, Amajuba, Zululand, Umkhanyakude, Uthungulu, Lembe, Umzinyathi and EThekwini. The largest proportion of people in the province are located in eThekwini (32.6%) followed by Umgungundlovu (12.6%).

According to the Income and Expenditure Survey (2003) KwaZulu-Natal has a Gini coefficient of 0.71 and has contributed approximately 16.5% to the National GDP. More than half of the population live in urban and metropolitan areas with the remainder living in the rural areas. There are approximately 496,230 households in KwaZulu-Natal that are involved in non-commercial subsistence farming (Provide Project, 2005). Although the province has a

large rural population involved in agricultural activities, agriculture does not represent a significant income source.

Table 4: Population by district Municipality

District Municipality	Population	Percentage (%)
Ugu (Port Shepstone)	769,758	8.6
Sisonke (Ixopo)	199,573	2.2
Umgungundlovu (Pietermaritzburg)	1,132,712	12.6
Uthukela (Ladysmith)	603,905	6.7
Amajuba (New Castle)	359,392	4.0
Zululand (Ulundi)	672,258	7.5
Umkhanyakude (Mkuze)	489,230	5.4
Uthungulu (Richards Bay)	732,529	8.1
Lembe (Stanger)	548,956	6.1
Umzinyathi (Dundee)	556,146	6.2
Ethekwini (Durban)	2,926,650	32.6
Total	8,991,109	100

*Source:* Statistics South Africa (2003). Census 2001, Pretoria.

According to the KwaZulu-Natal Department of Health (2005/6) the province has the highest burden of diseases associated with underdevelopment and poverty. A study conducted by the Human Science Research Council on HIV prevalence in South Africa (Shisana, Rehle, Simbayi, Parker *et al.*, 2005) puts KwaZulu-Natal Province at the top of the other Provinces with a 15,8% HIV prevalence, which is 11,9% higher than the prevalence in the Western Cape (the Province with lowest prevalence). After HIV and AIDS related illnesses, Tuberculosis (TB) is the second leading cause of mortality in the province with diagnosed TB cases increasing from 98,498 in 2004 to 109,556 in 2007, representing a caseload of 1,054 cases per 100 000 population which is 5 times above the epidemic threshold in terms of the WHO standards (Shisana *et al.*, 2005).

## Research Methodology

This study seeks to address two research questions: How are the Millennium Development Goals localised to meet the needs of people living in the province of KwaZulu-Natal? The second question is: Why has the increase in household income in the province of KwaZulu-Natal not had a substantive impact on poverty rates in the region?

According to Yin (1984, 13), if a study “*investigates a contemporary phenomenon within its real-life context*”, as is the case with the current study, a case study is a logical methodology. Yin (1984) further explains that the form of a question in terms of „how“, „why“, „what“, „where“, also dictates the design of the study, and the case study is more appropriate when „why“ and „how“ questions are asked. In order to understand all the interacting factors in localising poverty reduction goals and why poverty still persists after all the interventions introduced by the South African government, it was necessary to collect data from multiple levels in the three spheres of government. A case study approach was therefore appropriate.

Because this study is part of a process to develop a framework for tracking poverty reduction progress and bottlenecks, Eisenhardt’s (1989) roadmap for building theories from case study research was used. Eisenhardt (1989) takes a view that a case study is a research strategy which focuses on understanding the dynamics of specific settings by collecting qualitative and quantitative evidence using a combination of data collection methods such as interviews, questionnaires and observations. Below we provide a concise account of Eisenhardt’s framework for building theories from case studies.

### *Eisenhardt’s Roadmap for Building Theories from Case Study Research*

Eisenhardt contributed significantly to the board of knowledge of case study research by putting a framework that explains an eight-step process of theory building from case studies. The process starts off with an initial definition of the research questions in order to have a well defined focus when collecting data. Eisenhardt suggests an “*a priori specification of constructs* (p 536) to facilitate a “*firmer empirical grounding for the emergent theory*”. Early identification of research questions and specification of constructs and/or variables are tentative because the variables identified in the initial stages may not be part of the resultant theory. Focus may shift as new evidence emerges during the research process. Eisenhardt places emphasis on the importance of formulating a research problem with corresponding research questions and specifying variables with some reference to existing literature. The

second step involves selecting cases. The purpose of this step is two-fold: (1) to focus efforts on theoretically useful cases; and (2) to define the limits for generalising the findings so as to enhance external validity. The cases are chosen either to replicate previous cases or to extend the emergent theory. The third step involves development of research instruments and protocols for collecting data from multiple sources. The rationale behind this step is to have multiple data sets that can be viewed from different perspectives to foster a synergistic view of evidence. In so doing, the empirical grounding of the research propositions is strengthened. The fourth step involves entering the field to collect data such that data collection and analysis overlap. Eisenhardt suggests writing of field notes as a means of accomplishing the overlap. She explains that the researcher is able to record ongoing thoughts, hunches and make necessary adjustments during the data collection process, especially if the adjustments are likely to better ground the theory being developed.

The fifth step involves within case analysis which requires write-ups of descriptions to help researchers cope with the enormous volume of case study data. At this stage researchers may integrate rich and narrative descriptions with extensive use of illustrations, graphs and quantitative data summarised in tables. It is at this stage of theory development that unique patterns of each case being studied start to emerge. As a result cross-case comparison becomes possible.

Impressions, concepts and themes that emerged during case analysis are compared and relationships are verified at this stage (step 6). Theory and data is compared and assessed for goodness-of-fit. A close fit is what is required to build sound theory. During this stage, definitions of variables or constructs are refined. Multiple sources of evidence are used to build construct measures.

The seventh step involves reviewing literature which conflicts with the emergent theory and interrogating underlying reasons for the conflict. A review of theory discussing similar findings strengthens internal and external validity of the case study findings. The last step requires the researcher to make a call about when to stop the iterating between theory and data. The decision to stop is taken when improvement becomes marginally small.

## **Findings**

This part addresses the first research question: How are the Millennium Development goals localised to meet the needs of people living in the province of KwaZulu-Natal?

Under the leadership of the Premier of KwaZulu-Natal a poverty reduction strategic known as the Premier's Flagship Programme was developed with one key outcome: to halve the level of poverty in KwaZulu-Natal by 2014. This outcome is directly linked to the first MDG. The goal of the Premier's Flagship Programme is to implement a comprehensive, inclusive and holistic plan that systematically facilitates economic growth, community development, job creation, strengthening of local institutions and poverty eradication. The key objective of the programme is to deal with household deprivation so that the outcome to halve the level of poverty by 2014 is realized (KwaZulu-Natal Government, 2010). The severe development challenges of the province coupled with sheer volume of deprived households make the institutionalisation, implementation and monitoring and evaluation of the Premier's Flagship Programme a huge challenge.

The Flagship Programme has three core sub-components that are regarded as key interventions. These include: (1) The Food Security and Emerging Farmer Programme that was designed to ensure a varied availability of food supply to improve the nutritional well-being of individuals; (2) the Sustainable Communities sub-programme designed to drive disease management in the identified communities with special emphasis on HIV and TB; and (3) the Empowerment of Women and Youth Programme.

The Premier's Flagship Programme uses the Provincial Index of Multiple Deprivation (PIMD) to identify the most deprived areas within the Province. The index was developed by Statistics South Africa in Collaboration with the Human Science Research Council and University of Oxford (2001). There are five domains of deprivation within the index: (1) income and material; (2) employment; (3) health; (4) education; and (5) living environment. In developing the PIMD, spatial scale was taken into consideration, as a result the PMDI are presented at ward level. The PIMD scores cannot be compared between provinces, because the wards in South Africa vary considerable across the nine provinces.

The implementation of the KwaZulu-Natal Flagship Programme requires households to be profiled first, before poverty interventions are introduced. It is during the process of household profiling that the household needs are identified, a process followed by referring the needs to delivery agents. The onus lies with the delivery agents to respond to the needs of the households in a sustained manner. The War on Poverty and Flagship Programme requires a well co-ordinated and integrated system of operation to deliver on the Programme targets. The Programme adopted the multi-sectoral programme delivery approach that includes provision of identification documents, primary health care, education, housing and social security in accordance with the needs of deprived households in the province.

This part of the findings addresses the second research question: Why has the increase in household income not had a substantive impact on poverty rates in KwaZulu-Natal?

The data that emerged from the case study suggests a number of reasons that could be attributed to a marginal impact on poverty rates in South Africa. Firstly, in-depth interviews with community stakeholders who have been involved in care giving or home-based care perceive the Premier's Flagship Programme as a threat. This is based on their perception that the Programme recruited new volunteers, sidelining the existing resources. In their view, no criteria were followed in identifying cadres at community level. In fact, they perceive the programme as yet another parallel programme, which could pose a serious threat to integration.

Secondly, it was found that the household profiling which has been the focus for 2009/2010 has not been completed. Without a complete picture of the household profiles in the province, and without meaningful analysis of household data the province is left without a basis on which to formulate intervention strategies. This means that the obstacles hindering poverty reduction cannot be removed because they are not known by delivering agencies.

According to the Programme Review Report generated by the Premiers Office it appears as if different district municipalities have interpreted the Programme differently as illustrated in this statement (Province of KwaZulu-Natal, 2010, p.14):

*“There appears to have been no standardization on implementation of the programme in all the eleven districts. For that reason, if one looks at the annual district reports there is a sense that they all monitor interventions differently from what was conceived for the Premier’s Flagship Programme.”*

The following quotations from different sources within the Programme structures show that the Programme is not adequately resourced. The reports generated by different structures and districts suggest that there is no explicit funding formula for the Programme. Moreover, there are no mechanisms in place to hold people accountable for their action/inaction.

“Workshop did not resolve issues of shortage of resources.” (Source: June 2010 Flagship Programme Workshop).

*“...lack of transport, insufficient equipment and material and lack of financial resources to pay stipends.”* (Source: uMkhanyakude District Task Team Report, June 2010).

*“War rooms are not adequately resourced with equipment and infrastructure”* (Source: uThungulu District Task Team Report, June 2010).

*“Lack of infrastructure (electricity in poverty war rooms)...”*(Source: Ugu District Task Team Report, June 2010).

*“Lack of financial and infrastructural resources (electricity, telecommunication and internet).”* (Source: Sisonke District Task Team Report, June 2010).

*“Lack of resources (transport and computers)...”* (Source: uMzinyathi District Task Team Report, June 2010).

*“Shortage of resources - no stipends for volunteers;... not able to attract a large number of volunteers.”* (Source: uMzinyathi District Task Team Report, June 2010).

„War room“ is a concept devised to emphasise the attitude taken to fight what has been identified as the enemy - poverty and social ills at household level. War rooms are local structures with representation from all government structures, delivery agents at provincial and local level, as well as representation from community stakeholder groups. The war rooms have been structured as the centre stage of the Flagship Programme where the “War on Poverty” strategy is implemented. Household data is collected by volunteers. Thereafter the data is collated and disseminated to the district and local task teams as well as to various delivery agencies.

What has become clear is that while the war rooms are striving to profile households with the aim of implementing poverty relief programmes, they have been overwhelmed by the neediness of the vulnerable groups. This includes orphans, granny-headed and child-headed



families, youth exposed to trauma, unskilled and unemployed youth, abused women and children as well as substance abusers. A preponderance of these vulnerable individuals, have no income, food, shelter and they lack birth certificates and identification documents. Added to that, the vulnerable households are in areas where primary health care is not provided, and education and transport infrastructure is not available. Even though the government has introduced pro-poor policy initiatives, vulnerable individuals from deprived communities are not able to access services because of lack of vital registration documents, lack of infrastructure and even lack of income to travel to places where these services can be accessed.

Given the established relationship between poverty and poor health, and the relationship between poverty, crime and illiteracy, the Premier's Flagship Programme provides a basket of services to meet the urgent needs of the most deprived household. These include primary health care, providing education and creating awareness on HIV prevention, providing food parcels and temporary shelter for disaster victims, vital registration (application of identify documents, early and late registration of birth, marriages and death, amongst other interventions).

Proposed Framework for tracking bottlenecks in poverty reduction at local level.

In line with Eseinhardt's framework for building theory from a case study, this study has defined and addressed two research questions: (1) How are the Millennium Development goals localised to meet the needs of people living in the province of KwaZulu-Natal? In this section key dimensions for tracking bottlenecks in poverty reduction interventions are identified. This study has shown that poverty reduction millennium goals cannot be viewed separately from seven other MDGs (see Table 5). Findings from work conducted by the United Nations (UNDP, 2010a; UNDP, 2010b) concur with this study's findings. On the strength of this finding this paper puts forward a proposition that:

Proposition 1: Poverty reduction at local level can be tracked by measuring the extent to which the following five key constructs enable the successful implementation of interventions to eradicate poverty at local level: (1) policy and planning; (2) governance and accountability; (3) budget and financing; (4) service delivery; and (5) service utilisation.

**Table 5: Framework for tracking poverty reduction at local level**

Key dimensions linked to poverty reduction	Core Local Poverty Indicators
Policy and Planning	The extent to which national policies create an enabling environment to implement poverty reduction interventions at local level
	Capacity to undertake integrated participatory planning
	Capacity to create MDG monitoring and evaluation mechanisms
	Capacity to implement pro-poor policies
	Policy framework to plan and implement MDGs at local level
	Alignment of local priorities to national plans and policies
	Multi-sectoral strategy to implement MDGs at local level
Governance and accountability	Inter-functional co-ordination among the various ministries at provincial level
	The extent to which local government is accountable to local people
	Transparent procurement processes
	Public awareness about MDGs
	Financial accountability
Budget and financing	Fiscal decentralisation
	MDG funding mechanisms
	Funding of infrastructure to enable successful implementation of MDGs
	Predictability of funds
Service delivery	Incentives to prevent brain migration
	Basic infrastructure to provide water, electricity and sanitation
	Capacity in terms of equipment, human resources and appropriate technology
	Deficient referral system
	Management of supply chain systems
Service utilisation	Physical access of services
	Access to basic services
	Access to finance
	Access to information
	Access to land
	Access to renewable energy
	Self-efficacy of service users
	Cultural beliefs and social norms

The basis for this proposition is the review of the MDG progress conducted by the United Nations on ten countries that participated as pilots in the MDG Acceleration Framework. A review of the bottlenecks that impede successful implementation of interventions that

eradicate poverty were found to fall under the category of either policy and planning, or budgeting and finance, service delivery, and/or service utilisation. All four categories have been identified within the KwaZulu-Natal, with lack of budget and finance being the most cited impediment to implementation of interventions to reduce poverty. The findings from the case study also show that the inability to utilise services as a result of lack of infrastructure and/or lack of vital registration documents reduced the successful implementation of poverty reduction interventions significantly. This finding leads to the following propositions:

Proposition 2: Policy and planning has the highest predictive power of success in implementing poverty reduction interventions than service delivery, service utilisation, and budget and financing.

Proposition 3: Service utilisation has the higher predictive power of success in implementing poverty intervention than service delivery in rural areas.

In urban and semi-urban areas where services are easily accessible, service utilisation is not so much a challenge in comparison to service delivery. Individuals and household in urban areas experience institutional capacity and weak local capacity in terms of knowledge and skills to implement MDGs.

Proposition 4: Service delivery has the higher predictive power of success in implementing poverty intervention than service utilisation in urban and semi-urban areas.

## **Conclusion**

The framework provided in Table 1 is a starting point for capturing key dimensions of bottlenecks that impede successful implementation of poverty reduction interventions at local level. The dimensions are broad in nature and correspond to five broad categories (1) policy and planning; (2) governance and accountability; (3) budget and financing; (4) service delivery; and (5) service utilisation. The framework takes into account the bottlenecks encountered when the KwaZulu-Natal Premier's Flagship programme was implemented at local level. The framework also takes into consideration the findings of the pilot study that generated knowledge on MDG acceleration processes (UNDP, 2010a). Reference was also made to the toolkit prepared by the United Nations Development Programme to develop capacity to implement MDG interventions at local level (UNDP, 2010b).

The dimensions proposed in the framework represent the most obvious aspects of poverty reduction bottlenecks. It is acknowledged that in its current format the framework has limited utility. More work still needs to be done to improve the face validity of the framework. Further qualitative research that taps into the insights of different stakeholders at local community level in different provinces is required. The framework as it stands is not amenable to quantification. An expert survey needs to be conducted to establish quantitative indicators of the framework.

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# **WATER MANAGEMENT PRACTICES IN SELECTED CAPE TOWN HOTELS**

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## Key Terms:

Environmental Management, Green Management, Water Management, Water Saving Practices

# **WATER MANAGEMENT PRACTICES IN SELECTED CAPE TOWN HOTELS**

## **ABSTRACT**

The increasing emphasis for the hospitality industry to “green the business” and implement environmental management practices forms the basis of this research study. The study focused on what water management practices are currently being utilised in selected Cape Town hotels. Water management practices can be understood to be measures that hotel managers put in place to manage water usage in their daily operations. Initiatives available to assist the hospitality industry in South Africa were also researched to determine what assistance there is for local hoteliers who are implementing water management practices. An objective of the study was the inclusion of recommendations that hoteliers can use as a starting point when implementing water management practices.

The study focused on selected three, four and five star graded hotels in the central business district of Cape Town and Waterfront. Quantitative methods were used to generate data relating to the research objectives. A questionnaire was administered to determine current water management practices.

The findings of the study showed that South African hoteliers are starting to “green the business”.



## INTRODUCTION

The concept of sustainable tourism has been an important issue worldwide since the United Nation's Rio de Janeiro Earth Summit in 1992 (Anon, 2005b:1). Worldwide environmental organisations, such as Green Trust, World Wildlife Fund, Green Globe, and others, are eco-conscious role players that focus on a multi-dimensional level with regard to saving the planet's natural resources. Sustainable tourism is one of the areas of concern for environmental organisations, and this is an area in which the hospitality industry can contribute.

The South African Department of Environmental Affairs and Tourism, in the 1996 White Paper on the Development and Promotion of Tourism in South Africa, identified the concept of "Responsible Tourism" as the most appropriate concept and guiding principle for tourism development in South Africa (Keyser, 2002:381).

The hospitality industry has to become aware of ways to deal with environmental issues in a manner that that can contribute to this area of global concern. Strategies should include the implementation of environmental practices and policies, staff environmental awareness training, guest awareness campaigns and changes to structural design within the hotel. In 2002, the South African hospitality industry developed sustainable tourism guidelines that have been adopted by many hospitality establishments. These guidelines, which are voluntary, were developed in line with the World Tourism Organisation's code of ethics, broad ISO 14001 best practice and the International Hoteliers' Environmental Initiative. Hoteliers need to ensure that the strategies they put in place conform to guidelines developed by South Africa's Department of Environmental Affairs and Tourism (Anon, 2005a:2).

Given the need for involvement in sustainable tourism, together with the water restrictions being implemented by the Directorate of Water Services in the City of Cape Town, Cape Town hoteliers need to take measures to ensure effective water management practices are in place. The measures that are implemented should take place with limited disruption to the hotel's operation or guest satisfaction.

## **PROBLEM INVESTIGATED**

The continuing water shortage in the Cape Peninsula, incorporating the City Cape Town, has lead to the Directorate of Water Services in the City of Cape Town implementing water restrictions to assist in the conservation of water (Gosling, 2004:1).

The Directorate, albeit sympathetic to the hospitality industry, has informed the industry that applications for exemption will only be considered on an establishment-by-establishment basis and that exemptions will only be granted in exceptional circumstances (Van Niekerk, 2004b:1).

Water restrictions aside, internationally there is growing pressure for hoteliers to become part of an ever increasing “greening the business” initiative with regard to preserving the environment (Bohdanowicz, 2005:188-204). The attitudes toward water management practices is but one of the issues that hoteliers deal with when confronting environmental management policies (Kirk, 1998:33-47). Other issues of concern include waste management, energy management and pollution.

Due to the need for the hospitality industry to operate within the scope of the law and to conform to international environmental initiatives, the study determined what selected Cape Town hoteliers are doing with regard to water management practices. The study proposes a recommendation for implementing water management practices that can be used by Cape Town hoteliers.

## **RESEARCH OBJECTIVES**

The specific research objectives of the study were to:

- Determine what water management practices are being implemented in selected Cape Town hotels.
- Develop recommendations for the implementation of water management practices for Cape Town hoteliers.

## **FEDHASA INITIATIVES**

The Federated Hospitality Association of Southern Africa (FEDHASA) is the official representative of the hospitality industry of Southern Africa. FEDHASA represents hotels, restaurants, conference centres, caterers, self-catering accommodation, bed and breakfast accommodation, guesthouses, clubs, taverns, shebeens, suppliers and trainers, consultants and services providers to the hospitality industry. The association works on behalf of the hospitality industry on matters relating to tourism, legislation, trading conditions, taxation, education and other industry related issues (Department of Water Affairs and Forestry, 2004:1).

In April of 2004, FEDHASA and the Department of Water Affairs and Forestry (DWAF) signed a memorandum of agreement with the aim to promote and implement water efficiency principles within the hospitality industry.

The aims and objectives of the MOA are to jointly promote principles dealing with Water Conservation (WC) and Water Demand Management (WDM) within the day-to-day operations of a hospitality establishment. The scope of the memorandum covers various WC/WDM issues including (Department of Water Affairs and Forestry, 2004:2-3):

- Develop appropriate policies, strategies and guidelines.
- Establishment of best management practices and benchmarks.
- Awareness campaigns and information sessions for employees and guests.
- Sustainable use of alternative water resources (i.e. groundwater and rainwater harvesting).

Specific projects and initiatives could include the following:

- Specific water audits.
- Developing guidelines and benchmarks for WC/WDM in the hospitality industry.
- Incentive to apply WC/WDM principles in the industry.

- Participation by other government departments and other institutions and organisation as and when required.
- Establishing contact and co-operation with similar initiatives and with relevant bodies outside South Africa.

FEDHASA has also been proactive with regard to educating the hospitality industry with regard to measures that can be put in place which will lead to short term and medium to longer term savings. Below are a few examples from a list of short term measures and medium to longer term measures to reduce water consumption as per an email that was distributed to all FEDHASA members in October 2004 (Van Niekerk, 2004a).

<b>Short Term Measures</b>	<b>Medium to Longer Term Measures</b>
Implement awareness campaign to encourage staff to use water sparingly.	Install water meters, zoning off units or rooms to allow monitoring of water usage.
Initiate department meetings to provide information about how to reduce water consumption.	Install trigger guns on all hoses.
Focus water reduction training on housekeeping and kitchen employees.	Install single level control mixing taps.
Incentivise staff to propose water saving measures.	Install tap flow restrictors.
Compare monthly water records to identify water wastage.	Install water conservation shower roses.
Housekeeping to cut down number of flushes when cleaning toilets.	Convert to dual flush toilets.
Avoid using water hoses to clean paved areas or outside walls.	Switch to drought resistant plants in the garden.
Place mulching in flower beds to retain water longer.	
During low occupancy, house guests in sections and shut down unoccupied areas.	

Adhere to maintenance programs on equipment to ensure efficient operation.	
Carry out maintenance audit of water outlets, taps indoors and outdoors, showers, baths, pools <i>etcetera</i> .	

Recommendations provided by local organisations are in agreement with international measures to save water. Clouden and Singh (1999:18), after extensive case study research into hotels in Barbados and St Lucia provide recommendations for hotels which include keeping records of water consumption and installing water meters in individual departments. It is recommended to set targets for consumption and review the results regularly. The development a water management system is recommended as is the implementation of preventative maintenance systems that deals with any problems as soon as they are reported. All staff should be trained in the importance of checking and reporting leaks to promote a culture of water saving within the hotel. The installation of water conservation devices is recommended as new technology allows for improvement on existing measures and can lead to saving water.

## **IMVELO AWARDS**

In 2002 the Imvelo Awards were presented for the first time in South Africa with an aim of showcasing responsible tourism in South Africa. FEDHASA, the custodians of the Imvelo Awards, through the Awards, aims to create an awareness of environmental management issues across the hospitality and tourism industries of South Africa. Establishments that are actively implementing environmental management practices, including water management practices in line with the National Responsible Tourism Guidelines, as outlined by the Department of Environmental Affairs and Tourism, are awarded for their successes. The awards cover the full spectrum of issues connected to responsible tourism that include water management under the environmental aspect (Anon, 2005a:1-2).

## **WATER MANAGEMENT PRACTICES IN THE HOSPITALITY INDUSTRY**

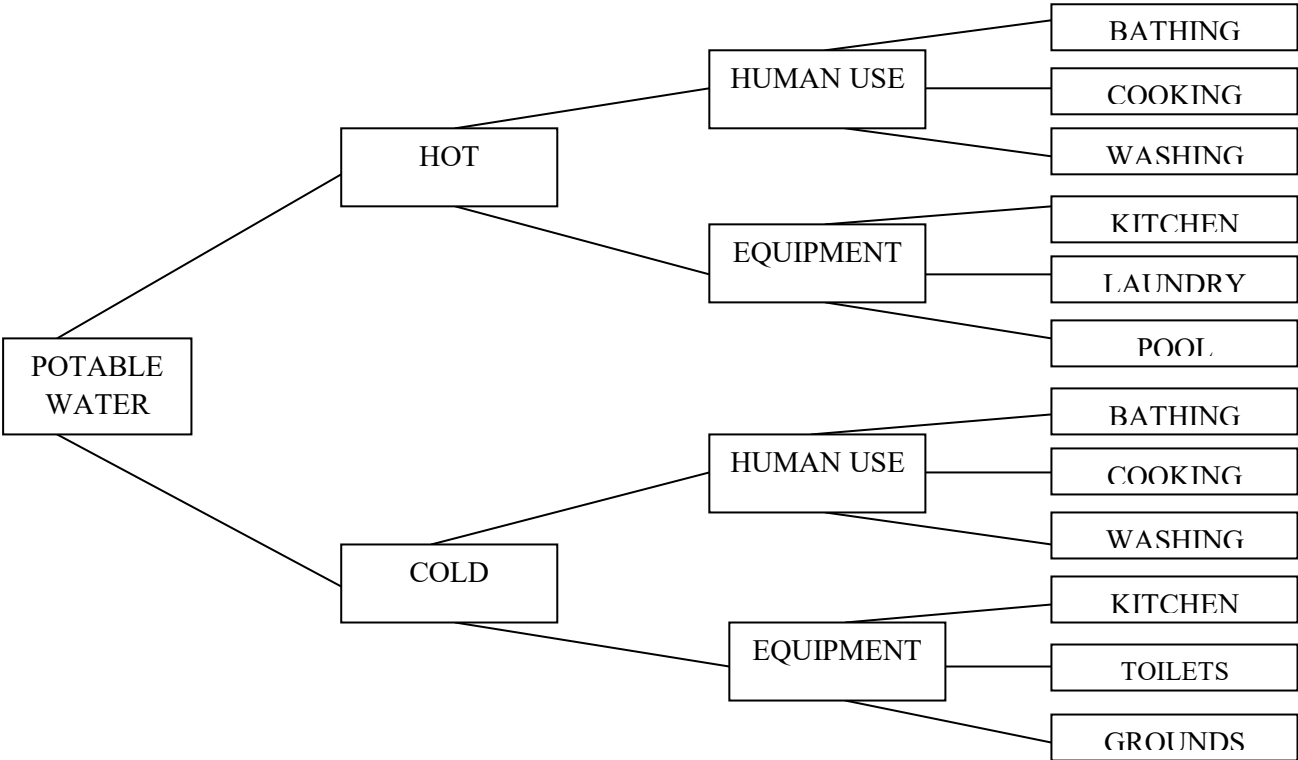
Water management practices in the hospitality industry, on a worldwide basis, have been around for many years with international environmental programs being implemented in hotels. The International Hotels Environment Initiative (IHEI) was created in 1992 when twelve international hotel companies joined forces to promote continuous improvement in environmental performance by the hotel industry worldwide. The aim of the IHEI is to focus on how hotels can improve their environmental management practices (International Hotels Environment Initiative, 2005:1).

Sloan, Legrand & Chan (2009: 41) indicated that water saving is not a priority for hoteliers with areas such as revenue management and marketing having a higher level of importance. However, from the perspective of a hotel guest, water is an important part of the hotel experience. Any water restrictions that may be in place would result in having an unhappy stay and maintaining adequate water comfort must be central to the hotel's water management practices.

Chan and Wong (2006:488) found that senior management tend to focus on improving customer service and revenue before they make environmental management a key issue. Mensah (2005:6) reported that hoteliers target water management by reducing wastage of water and the improvement of water quality linked to water availability and cost savings together with conservation. Here again the environmental aspect of water management practices are not given priority.

Water used by a hotel is dependent on the type, grading and size of the property as well as the service and facilities offered. The climate and irrigation needs and the water management practice all contribute to consumption figures. The typical utility consumption of hotels with between 200 and 1000 rooms indicates that 15% of a hotel's utility costs are portioned to water costs. This is the second only to electricity costs that is portioned 65% (International Hotels Environment Initiative 1993:31).

Water is an important resource for the hospitality industry as it is limited and is needed for a number of activities as illustrated below. The management of this resource and the measure that hotel managers put in place with regard to daily operational procedures is what can be referred to as water management practices.



Building water systems and uses (Sloan, Legrand & Chen, 2009:42)

The areas in a hotel that have the potential for the largest saving when it comes to water saving are guest rooms, laundries, kitchens, swimming pools and gardens. Hotels that have an in-house laundry would have higher costs for water. Deng and Burnett (2002:59-60) found that there is a significant difference in the distribution of water use between hotels that have in an in-house laundry and those that do not. They indicate that approximately 47% of water used in a hotel that has an in-house laundry is utilised by the laundry.

The importance of environmental issues and practices to management within the hospitality sector over time has grown and with international standards for good

environmental practices as set out by ISO 14001, hoteliers cannot ignore the issue. Hoteliers should not see environmental issues as a passing fad but together with working towards preserving the environment, they should be able to benefit and receive a return on their investment. Hotels with good environmental programs increase the efficiencies of their hotel, extend the economic lives of their facilities through sustainable operations and gain important public relations benefits. A hospitality establishment that gains a „green“ label can advertise the fact and increase market share. (Baker and Huyton, 2001:70).

Baker and Huyton (2001:71), make reference to reasons why managers are motivated to save water. They state that hotels save water to increase profits as financial returns are always an important motivator. The need to develop a better environmental image is also a strong motivator as this can be a possible determining factor when guest select a hotel to stay in. The compliance with corporate policy is also relevant as decisions made by the corporate top management is expected to be implemented by all within the structure to the benefit of the corporate group as a whole. The need to reduce runoff and to reduce strain on the sewage system is also seen as important motivators for hotelier.

Hoteliers that wish to achieve maximum benefit of water management initiatives in terms of operating costs savings and environmental protection at the same time as maintaining customer service need to manage the water use in their properties. Water management practices cannot be used in isolation as indicated by Deng and Burnett (2002: 64). Their research found that in most cases water and energy management can be part of an overall environmental management program. Although water can be managed together with energy use, water management has its own characteristics.

The key elements for a water management program as put forward by Deng and Burnett (2002:65) indicate that water management should be integrated into the hotel's management system and be treated as of equal importance as other management functions. Senior management should ensure that there is a clearly defined water management policy and an action plan. Targets for the use of water in the different areas of the hotel should be set and monitored to indicate the success or



failure of changes made. Water audits should take place annually and there should be weekly and monthly monitoring of progress against targets in order to have quantitative results to measure progress. All staff should be trained and encouraged to be part of the water management practices in order to create a culture of water saving within the hotel. All departments should set up good housekeeping practices that are relevant to the operational standards of the department. Water sub-meters should be installed in major water use areas such as the laundry, kitchens and guest floors to allow for department monitoring of water use. Motivating and encouraging the hotel's maintenance staff to adopt new technologies should be given high priority as ongoing maintenance and improvements can influence water saving.

## **ENVIRONMENTAL PROGRAMS**

Hospitality establishments in South Africa, through FEDHASA initiatives have the opportunity to affiliate themselves with environmental organisations such as Heritage and The Natural Step (McManus, 2005).

The Natural Step is an international environmental organisation that aims to achieve a common understanding of not only water management practices but environmental management as a whole. Some of the key aspects that are the focus for the Natural Step include the adoption of a shared mental model and understanding of sustainability. The importance of increased motivation and commitment of the workforce is an aspect that can determine the success or failure of any water management practices put in place and has to be handled appropriately. The reduction of the use of the resource, in this case water, in areas within an organisation is a measurable way to determine the benefits achieved by implementing water management practices. The wastage of water in organisations is also an aspect of concern and methods to reduce the amount of waste generated is an additional key area that the Natural Step focuses on.

They focus on awareness, behaviour, clear vision and direction as the four key aspects of their approach to environmental management with sustainability being critical.

Another key consideration when working with The Natural Step is illustrating that the measure of success is viewed from three dimensions, which are referred to as the triple bottom line. The triple bottom line, Environmental, Social and Economic, illustrates the importance of each of the areas to an establishment (Jacobs, 2005:4). Bohdanowicz, (2005:191), Chan and Wong, (2006:482) and Mensah, (2005:6) substantiate this approach and found that this indicates the importance of all three elements but the hotelier still tends to place the emphasis on profit. The Natural Step, working with Heritage, aims to implement changes to the full spectrum of environmental management practices from a strategic view point (Jacobs, 2005:3).

Heritage is another South African company that has developed an environmental rating program that allows for the measurement of practices taken by establishments within the tourism and hospitality environment (Heritage, 2005). All establishments that join the program are required to adopt and practice the Heritage Charter, which states, “We recognise that our business has an important role to play in protecting and enhancing the environment for future generations and to help secure the long-term sustainability of the tourism industry”

The Charter goes on to state ten areas where an establishment must commit to take action and one of these areas is to minimise the usage of energy, water and materials (Heritage, 2005:11).

<b>Ten Areas of Commitment:</b>
To achieve sound environmental practices across the entire operation.
To comply fully with all environmental legislation.
To minimise the use of energy, water and materials.
To minimise waste and to reduce, reuse and recycle the resources consumed by the business wherever practical.
To reduce pollution to a minimum and where appropriate to treat effluents.
To invite customers, supplier and contractors to participate in efforts to protect the environment.
Where possible to work with others in the tourism industry, public agencies and the community to achieve wider environmental goals.

To provide all employees with the training resources required to meet the organisation's objectives.
To openly communicate the organisation's policies and practices to interested parties.
To monitor and record the environmental impacts on a regular basis and compare the performance with the organisation's policies, objectives and targets.

## RESEARCH METHODOLOGY

*Study design:* A study was conducted amongst three, four and five star graded hotels in selected Cape Town hotels. The focus of the study was on hotels in the central business district of the City of Cape Town and the Waterfront area.

*Sample:* The survey sample (n=44) comprised sampling of three (n=13), four (n=23) and five (n=8) star graded hotels, within the delineated area, as per the star grading list of the South African Tourism Grading Council (Tourism Grading Council of South Africa, 2006).

*Instrument:* Quantitative methods were used to generate data relating to the research objectives identified by means of structured questionnaire. An anonymous questionnaire with closed and open ended questions was completed by management representatives in the selected sample. The quantitative data was analyzed using the computerised statistical package, SPSS 16. The data was then organised, presented and interpreted using summary statistics such as frequency tables, cross tabulation and Chi-square testing.

For the study the questionnaires were designed to obtain the data that was required to answer the objectives. The type of data required was quantitative and the questions used were specific with the options of answers being prescribed. The questionnaire had a predetermined structure with instructions for the respondents to follow when answering the various questions. This form of questionnaire was in line with the statistical analysis that was required for the study.

The researcher was of the opinion that a direct and personal approach to the distribution and collection of the completed questionnaires would achieve a better response than a mailed questionnaire. Prior to the questionnaire pack being hand delivered to the hotel a call was made to identify either the Rooms Division Manager or the Front Office Manager. A brief discussion took place with each representative which served as a personal introduction to the researcher and the process regarding the completion of the questionnaires.

Of the forty four (44) hotels selected to be part of the survey, forty two (42) accepted and two (2) declined. Of the forty two (42) hotels that accepted, twenty two (22) did not complete the questionnaire.

For the purpose of the study, descriptive statistical calculations were performed using SPSS 16, a computerised statistical package. The calculations deal with frequency tables of the variables.

**RESULTS**

The study indicates in Table 1 that a combined 70% of hotels that took part in the study perceive environmental issues to be of medium to high level of importance.

**Table 1**

**Level of importance of environmental management issues**

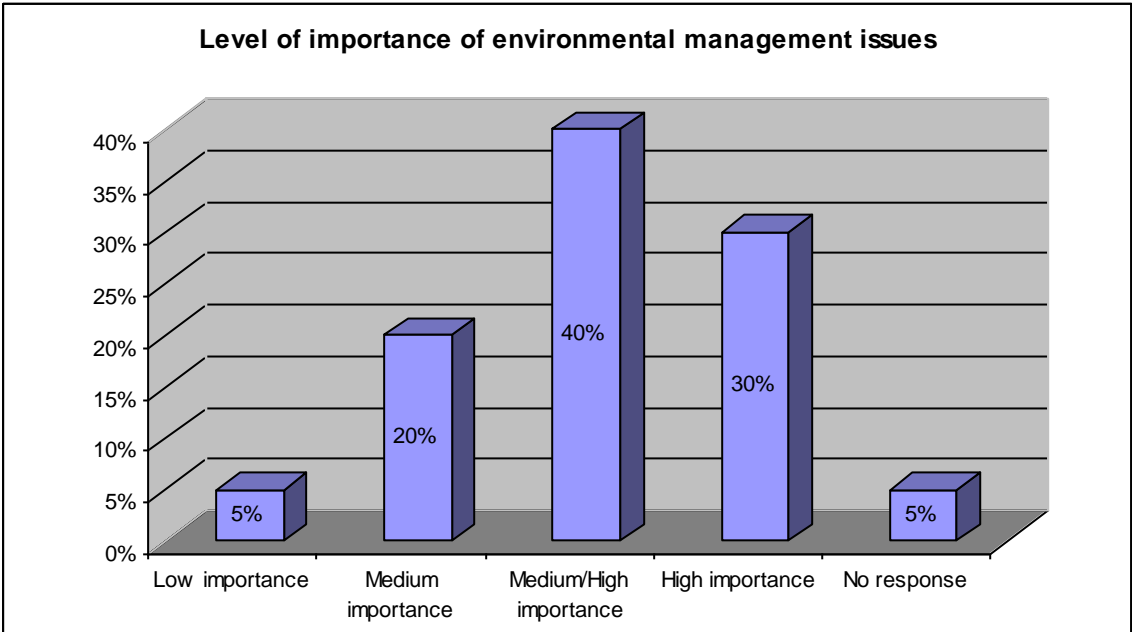


Table 2 indicates that 60% of those hotels that were part of the study have an environmental policy. Thirty five percent (35%) of those that do have a policy indicated that they have a formal written policy as indicated in Table 3. The researcher finds that these findings correspond with the literature reviewed that indicates that having an environmental policy is regarded significant due to social and financial recognition, (Kirk, 1998:33-47). Jacob's (2005:9) triple bottom line concept may also be a determining factor for having an environmental policy as the results are then measured against the policy. Those that indicated that they have an environmental policy is relevant to Kirk's (1998:33-47) findings that referred to there being no relationship between the type of hotel and having a written policy.

**Table 2**  
**Does the hotel have an environmental policy?**

	N	%
Yes	12	60.0
No	7	35.0
No response	1	5.0
<b>TOTAL</b>	<b>20</b>	<b>100.0</b>

**Table 3**  
**Format that the hotel policy takes**

	N	%
Written statement	7	35.0
Unwritten policy	5	25.0
No response	8	40.0
<b>TOTAL</b>	<b>20</b>	<b>100.0</b>

Table 4 indicates 45% of those hotels that were part of the study indicated that the guests of the hotel are informed about their environmental policy through either signage, information on arrival or brochures and pamphlets.

**Table 4**  
**Guests informed about hotel's environmental policy**

	N	%
Yes	9	45.0
No	8	40.0
No response	3	15.0
<b>TOTAL</b>	<b>20</b>	<b>100.0</b>

When considering water management as a form of environmental awareness, Table 5 indicates that 55% of the hotels inform their guests about their environmental policy

with regard to bedroom linen and laundry savings. This is low considering the literature that indicates that laundry areas are an area of high water usage as referred to by Deng and Burnett (2002:59-60).

**Table 5**

**Are guests advised of the hotel’s environmental policy with regard to laundry?**

	N	%
Yes	11	55.0
No	9	45.0
<b>TOTAL</b>	<b>20</b>	<b>100.0</b>

The study has shown that the hotels make use of various methods to monitor and control water usage. Results in Table 6 indicate the various methods used by hotels to monitor and control water usage on an operational level with the areas of importance being identified. The methods used were given in the structured questionnaire based on the finding of the study. Deng & Burnett (2002:65) refer to metering as a key element of a water management program.

**Table 6**

**How is water usage monitored and controlled?**

	Flow meters in each department		Flow meters on each floor		Flow meters in each room		Other	
	N	%	N	%	%	N	%	N
Yes	3	15.0	0	0.0	0	0.0	5	25.0
No	5	25.0	8	40.0	8	40.0	3	15.0
No response	12	60.0	12	60.0	12	60.0	12	60.0
<b>TOTAL</b>	<b>20</b>	<b>100.0</b>	<b>20</b>	<b>100.0</b>	<b>20</b>	<b>100.0</b>	<b>20</b>	<b>100.0</b>

There was no difference between the percentage of respondents that did or did not monitor and control the water usage in the hotel. Further analyses of this aspect of the study indicated that even where hotels do monitor and control water usage they did not give a response to the methods used. Fifteen percent (15%) of those that did respond indicated that flow meters in each department were used with 25% indicating other methods being used.

Albeit hotels have methods to monitor and control water usage, the results indicate that 45% of respondents do not have measures in place to reduce water consumption. Of the 40% that indicated that they do have measures to reduce water consumption, the most common measure was the reduction of the quantity of water needed for toilet flushing. 25% of those that responded make use of this measure and 20% place flow restrictors on taps in the hotel.

The one question in the study that received a 100% positive response was related to the hotel's operation of repairing water leaks quickly. A slightly lower percentage of respondents that indicated that they properly maintain the water sprinkler systems in their hotels. Only 60% responded that they do maintain their water sprinkler systems. The results of the above are reinforced by the results which show that 60% of the hotels made use of preventative maintenance on tapes, pipes and other water equipment as a form of water saving.

Grey water usage by the hotels that responded to the questionnaire is not an area of concern to hotels with only 5% indicating that they make use of it and that 70%. Grey water refers to what that has been used in sinks, baths, showers and washing machines that can be reused for landscaping or recycled back into the building through the toilet system. The waste water is treated and stored on site and requires a second piping system with a pump and filter system.



The findings from the questions relevant to the objective of determining what water management practices are being implemented in selected Cape Town hotels concurs with the findings of the study. The various authors, Van Niekerk (2004a), Clouden and Singh (1999:18), Bohdanowicz (2006:672-673) and Deng and Burnett (2002:64), referred to, put forward many suggestions with regard to water management and saving and from the sample of hoteliers that took part in this study it seems the hoteliers in selected Cape Town hotels are in line with international, national and local trends with regard to water management practices.

## **COMPONENTS OF A WATER MANAGEMENT POLICY**

A water management policy must:

- Clearly communicate the hotel's commitment to maintaining the environment through sound water management practices.
- Have an action plan to guide the hotel's actions and budget.
- Include the implementation of water management practices that cover all actions relating to the management of water resources, including the awareness and training of staff, incentive programs and guest awareness.
- Have corrective actions or monitoring procedures to ensure that the water management practices meet expectations and allow for corrective action to meet the required level of compliance.

## **STEPS IN IMPLEMENTING A WATER MANAGEMENT POLICY**

A water management policy requires a continual review of planning, implementing and improving the processes and actions in order to meet predetermined targets.

The policy should lead to improvement based on:

- **Planning** - identifying water saving aspects and establishing goals.
- **Implementing** - training and operational controls.
- **Checking** - monitoring and corrective action.
- **Reviewing** - progress reviews and making changes to the water management policy if needed.

## **An 11-step process to create a water management policy**

In order for a hotel to develop a water management policy to deal with the water management practices used within their daily operations the following may be used as a guide by a hotelier (Anon, 2008a:3).

### **Step 1: Education**

The hotelier should gather as much information that he/she can with regard to water management practices and initiatives both locally and internationally. This can include resources from organisations such as FEDHASA, Heritage, Green Globe 21 and the ISO 14000 policy.

### **Step 2: Form a team**

Select an interested and committed employee from each department in the hotel to be part of the water management team.

### **Step 3: Develop and write a water management policy for the hotel**

The writing of a policy should indicate to all within the hotel the intent of the management and the relevance of water management in each department. The policy should be brief yet comprehensive enough to define the direction the hotel intends taking towards dealing with water management issues.

### **Step 4: Designate a champion**

One person that shows dedication and an interest in water management issues should be tasked with managing the environmental program of the hotel. They should be given the necessary authority together with the responsibility required to make a success of the initiative.

### **Step 5: Develop a list of water management impacts for each department**

Allow each department within the hotel to investigate their working processes with regard to water management. This step allows for the education of the department's employees of the consequences and responsibility of their department.

**Step 6: Qualify and quantify as many of the impacts as possible**

Describe and measure the impact water management has in the broader environmental debate. A thorough and accurate assessment of the impacts makes it simpler to set targets and goals which subsequently will be measured to determine whether the targets and goals are met.

**Step 7: Rank the impacts in order of severity, ease of fixing and cost to repair**

Choose various ranking schemes to put the impacts in order of importance. By ranking the impacts the hotel is able to cost the impacts per department and in totality.

**Step 8: Determine and define a set of objectives**

The water management team needs to set objectives and group them as either short term or long term. The objectives can be per department and/or for the entire hotel. For example, set an objective of a 10% saving in water usage for the entire hotel.

**Step 9: Set targets for each objective with clear timelines**

Each objective that was set in Step 8 needs to have specific targets defined. The targets need to put forward set dates that will allow for the measurement of results.

**Step 10: Define responsibilities for each target**

Delineate responsibilities for each of the targets set. By allowing for the responsibilities to be spread through the departments, depending on the targets, a competitive atmosphere will be created and the success of the hotel obtaining its objectives are not focused on a single person.

**Step 11: Document objectives, targets and responsibilities**

Documentation of the water management teams' initiatives including all aspects mentioned in the steps above will allow for clear timelines being accessible by all. Detailed and thorough documentation will show the benefits and progress of the water management program and allow for evidence when certification by outside organisations becomes relevant and important to the hotel.

## **RECOMMENDATIONS**

Data obtained from the research gives an indication as to what selected Cape Town hotels are doing with regard to water management within their establishments. Data pertaining to the awareness of water management practices and the need for water management was also been identified. Overall the study finds that there is an indication that the Cape Town hoteliers are aware of water management and are not ignoring the importance of having water saving measures implemented within their properties.

The study has put forward recommendations for hotels in Cape Town to utilise when starting water management initiatives within their hotel. This will be able to provide the hotelier with a starting point from which to develop water management practices for short-term, the day to day saving mechanism and long-term, capital expenditure saving.

The study also serves to inform the hospitality industry in the Cape Town area, what support and assistance with regard to developing environmental policies and effective water management practices are provided by FEDHASA and its associates. As highlighted in the study there are a number of local and international environmental organisations that can assist to ensure best practises are implemented.

The recommendation for implementing water management initiatives illustrates what hoteliers can do to ensure water management within their establishment. The recommendations provide for both short-term (the day to day saving mechanism), and long-term (capital expenditure), methods for dealing with the management of water within the hotel environment (Van Niekerk 2004a). The recommendations can be a starting point for the implementation of a sound water management practice that can be of benefit to the hotel's bottom line as well as the environment.

## **LIMITATIONS OF THE STUDY**

The study has presented certain limitations that may have limited the findings. The lack of a pilot study to test the reliability and validity of the questionnaires may have resulted in the high percentage of non response to certain questions. The possible technical nature of certain options with regard to methods used to monitor and control water usage may have been beyond the knowledge of the hotel representatives that completed the questionnaire. The majority of the representatives were front office management that may not have knowledge of technical aspects.

The sample size of the study may not have produced sufficient data to confirm all the areas of the study. However, it should be noted that as the sample was based on the star grading of the South African Tourism Council the full list of hotels graded as per the criteria was used. Not all hotels are graded by the South African Tourism Council which resulted in many hotels being excluded from the study.

A further limitation is the less than 50% response rate. The hotel's representative that was approached by the research to be part of the study did not follow through with regard to the completion of the questionnaire. A possible solution to this for further studies could be a personal interview in which the questions could be addressed.

The limitations above make it important to note that the results should not be seen as a generalisation of the practices within all Cape Town hotels only those in the selected area that took part in the study.

## **CONCLUSION**

The study has covered all the objectives of the study and indicates a positive stance towards water management practices at selected Cape Town Hotels. Hoteliers are participants in water management practices.

If all hoteliers take up the challenge of implementing water management practices the hospitality industry will become part of the global tendency to take on environmental management to the benefit of all globally.

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# **A FRAMEWORK FOR INVESTIGATING FACTORS THAT INFLUENCE PROFESSIONAL SUCCESS OF WOMEN**

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# **A FRAMEWORK FOR INVESTIGATING FACTORS THAT INFLUENCE PROFESSIONAL SUCCESS OF WOMEN**

## **ABSTRACT**

This paper suggests a framework for investigating the factors that influence professional success of women. As women are not adequately represented in executive and decision making positions, it is important to address this issue. This paper expands the body of knowledge on barriers to women's career progression. It further suggests which particular personality characteristics are important for women to become successful in their professional careers.

A critical literature review focuses on components for inclusion in a potential framework. Following the literature review, the variables for inclusion in a proposed framework are discussed. To demonstrate the steps followed in the design of the proposed framework, a general concentric influences model was used as background. The proposed framework includes as independent variables personality, culture, demographics, and internal and external support impacting on career barriers. The dependent variable is professional success. To conclude, possible guidelines for implementation of the proposed framework are provided.

**Keywords: Career progression of women, professional success, barriers to career progression**

## **INTRODUCTION**

The development of leadership potential in women has been identified in contemporary literature as a vehicle for strengthening competitive advantage (Duffy, Fox, Punnett, Gregory, Lituchy, Monserrat, Olivas-Luján, Santos and Miller (2006b:554). Organisations, including the higher education sector, can gain valuable insights into methods of achieving gender inclusivity. This paper will expand the empirical body of research and knowledge on barriers to career progression and indications that the glass ceiling continues to exist, despite the belief in many spheres that it has been eradicated. It further suggests which particular personality characteristics of South African women need to be studied to determine the influence of personality traits on the achievement of professional success.

The paper starts by reviewing previous research on career progression of women. Thereafter the problem definition and objectives of the paper are outlined. The literature review focuses on the components for inclusion in a potential framework. Following the literature review, the variables for inclusion in a proposed framework are presented and discussed. To demonstrate the steps followed in the design of the proposed framework, a general concentric influences model is first presented. The proposed framework includes as independent variables personality, culture, demographics, and internal and external support impacting on career barriers. The dependent variable is professional success. To conclude, possible guidelines for implementation of the proposed framework are provided.

## **PREVIOUS RESEARCH ON CAREER PROGRESSION OF WOMEN**

Research on career progression of women comprises a multitude of factors influencing women's ability to progress beyond the glass ceiling. Kumra (2007) points out that women are disadvantaged by the fact that the mould measuring career success is based on a masculine culture. Daft (2010: 353) argues that theories of management cannot presume employees to share similar values, beliefs, motivations, and attitudes. Such a monoculture may lead to stereotyping and adversely affects equal opportunity for career advancement.

The escalating research into the nature of artificial barriers to professional success is likely to be prompted by concern that the world-wide underrepresentation of women in executive and decision making positions appear to impact on business growth and the economic development of countries (Kochan, Bezrukova, Ely, Jackson, Joshi, Jehn, Leonard, Levine and Thomas , 2002; Hemmati and Gardiner, 2002; Bilimoria and Piderit, 2007; Konrad, 2007; Singh, Vinnicombe and Terjesen, 2007; Adler, 2007: 330-331; Monks, 2007). Duffy *et al.* (2006a:2) caution against the risk to firms and educators in a globalised society if they fail to understand what contributes to the success of women in various cultures. Knowledge and awareness of the barriers are deemed essential for the development of future women executives for the achievement of business success.

The most prominent barriers identified in literature include gender stereotyping (Fels, 2004; Fox and Lawless, 2004; Bickley, Lord and Thomas, 2006; Ryan and Haslam, 2006; Bilimoria, Godwin and Zelechowski, 2007; Dunn-Jensen and Stroh, 2007; Bolton and Muzio, 2008), leadership stereotyping (De Vries, 2006:118; Hopkins and O'Neil, 2007: 137), an inhospitable organisational culture (Kanter, 1977; O'Connor, 1996; Beatty, 2007:38-39), lack of female mentors and role models, and social exclusion from male networks (Simpson and Altman 2000:196; Ramsay, 2000:6; Kephart and Schumacher, 2005; Singh, Vinnicombe and Terjesen, 2007:305-306; Kumra, 2007; Cross and Armstrong, 2008:602).

Whilst previous research has established that women are indisputably disadvantaged by artificial barriers to success, disparities in social enculturation and differential treatment in the workplace, many women do progress to top positions in the business and professional sectors as is illustrated by Dyson (2001). Duffy *et al.* (2006:2a) ask the question: “*What are the characteristics of individuals and their environments that enable some women, and not others, to reach the heights of their business and professional fields?*” *Do successful women grab opportunities? Do they receive better support?*”

Limited published research to identify the characteristics of women who have progressed to positions where they influence decision making is available. Duffy *et al.* (2006a and 2006b) conducted research on the characteristics of successful professional women in the Americas, particularly personality and cultural variables which play a role in their success. This study did

not include South African women and the question has therefore arisen whether high achieving South African women demonstrate the same or similar characteristics than their international counterparts.

## **PROBLEM DEFINITION AND OBJECTIVES**

World-wide underrepresentation of women in executive and decision making positions is a major area of concern, not only in terms of social justice, but also for business growth and the economic development of countries (Duffy *et al.*, 2006b:553). Research (Catalyst 2009 and 2010) within this domain illustrates that the barriers women face in career advancement have remained constant. It is however not yet clear what constitute the major contributing factors to the lack of career advancement for women to leadership positions. It is necessary to establish which factors contribute to the success of those women who have conquered the barriers and progressed to the upper echelons.

Understanding firstly the characteristics associated with leadership and professional success and secondly the characteristics of successful women require further research. The objective of this paper is to develop a framework to investigate personality and cultural characteristics of successful professional women in South Africa in order to extend the research of Duffy *et al.* (2006a and 2006b) to South Africa.

## **LITERATURE OVERVIEW**

### **Barriers to career progression**

Statistics (Catalyst 2009; Catalyst 2010; BWA, 2010) reflect a gross underrepresentation of women in senior executive positions which research on the topic attribute to the multitude of barriers to professional success women encounter. Overt and inadvertent marginalization of women persists despite evidence that their participation in modern people-centered management adds value to the development of sustainable societies (Mukhopadhyay, 2003:5-7).

Ogden (n.d) lists masculine organisational cultures, male dominated social and professional networks, lack of career development strategies and mobility barriers (family responsibility) as

core barriers to women's ability to progress to the top. Of the most critical barriers to advancement identified by Morrison (1992: 33) include prejudice: treating differences as weaknesses and a lonely, hostile, unsupportive working environment.

As in most other countries, South Africa is still inadvertently a hierarchical society where social stratification is guided by patriarchal principles. The equity profile of senior management in the majority of institutions is male dominated. The latter perpetuates the status quo of socialised patriarchal norms, creating an invisible barrier to the promotion of women to senior positions (Falk and Grizard, 2003).

- **Glass ceiling**

Falk and Grizard (2003:6) indicate that the concept glass ceilings first appeared in the press in 1984 with reference to the fact that women are trapped and are unable to progress beyond middle management of their organisations. By 1991 the glass ceiling was substantiated and the Glass Ceiling Act was enacted in the Civil Rights Act. The authors (2003:8) identify three core reasons for the persistence of the glass ceiling, namely stereotyping where women are perceived as less competent than their male counterparts, insufficient recruitment and opportunities for advancement and that women are routed to positions that do not typically lead to an executive position.

According to Simpson and Altman (2000:190): *“The concept of the „glass ceiling“ has by now achieved the status of a well enshrined phenomenon, supported by conclusive evidence which asserts that women managers“ careers are blocked more often than men”*. The authors (2000:194) suggest that differential career progression may however be time bound as younger women, under the age of 35 are increasingly successful in securing senior positions, possibly because they were born and raised in the information age, are willing to work hard and place income and family/personal life above loyalty to a company.

Simpson and Altman (2000:194-196) argue that the glass ceiling may have been demolished because of increasing evidence that gender-based barriers to career success are being overcome by a younger generation. It may however be argued that it is only *“punctured”*, transcended by younger women only. A third argument is that the ceiling has been repositioned to a higher level of the hierarchy. A further argument (2000:195) relates to the personality traits of successful

women and suggests that the glass ceiling serves as filter and enhances the perseverance and caliber of those women who manage to transcend to the top.

As a result of inadequacies in the pipe-line theory as a measure to close the equity gap, Bugues and Esteve-Volart (2008) researched the effect of the gender composition of recruitment committees on panel decisions. Bugues and Esteve-Volart (2008) found that diversification of these committees by more than one female does not impact positively on the appointment of women to top positions. Stereotyping is to blame for the fact that female panel members appear to overestimate the competency of male candidates. Bugues and Esteve-Volart (2008: 2-3) propose gender quotas in top positions as an alternative solution and argue that a gender quota at the top level automatically equalizes the number of men and women in top positions. Although the gender gap is closed in this way, further emphasis on gender parity in decision-making positions is necessary.

- **Gender and leadership stereotyping**

Research on the topic of stereotyped gender roles in South Africa (Fels, 2004; Fox and Lawless, 2004; Bickley, Lord and Thomas, 2006; Ryan and Haslam, 2006; Bilimoria, Godwin and Zelechowski, 2007; Dunn-Jensen and Stroh, 2007; Bolton and Muzio, 2008) illustrates a common belief amongst all ethnic groups that women are inferior to men. Social constructionism suggests that stereotyping is a cognitive process which generalises and subsequently categorises people according to socialised beliefs about personal characteristics and behaviours. Women are typically stereotyped as lacking in ability to deal with the challenges of senior management. It results in gendered role segregation and poses a barrier to equal representation in the upper echelons (Bolton and Muzio 2008:2).

As a result of stereotypical assumptions about women's ability, managers often assign less developmental functions to them. Their employment tends to have a greater focus on less influential staff functions than on line position where they can exert power. Women are often assigned to relational tasks which are less visible, not institutionally rewarded and not taken into account when considered for promotional purposes. In a chain reaction, involvement in relational tasks could be perceived as a weakness and result in further stereotyping (Bickley, Lord and

Thomas, 2006:65 – 85). Research (Ryan and Haslam, 2006:276) suggests that non-influential positions with limited scope is a major career limiting factor which, due to its covert nature, often goes unnoticed.

The token appointment of women to top positions where they are in the minority increases their risk of being stereotyped (Bilimoria, Godwin and Zelechowski, 2007:234). Stereotyping is minimised when the group is equally represented by both sexes. Equal representation reduces the perception that female team members are inferior and creates an environment where women are viewed as individuals, rather than a token representative.

Gender stereotypes extend to leadership stereotypes. The tendency to associate the profile of a competent manager or leader with typical male characteristics (Hopkins and O'Neil, 2007: 137), and consequently ranking the leadership attributes of women lower in importance to leadership effectiveness is a contributing factor to women's underrepresentation in leadership positions. De Vries (2006:118) argues that leadership is a gendered construct, valuing masculine traits above those of women. Research (De Vries, 2006:118; Hopkins and O'Neil, 2007:136) points to a perception both men and women hold that men are, by virtue of their gender, more successful as managers, even when women outperform men. This view is supported by Beatty (2007:34) who argues that the original gender differences established by Broverman *et al.* (1972) have remained consistent across cultures. Men are perceived as better decision makers and women as less effective in leadership roles. Women's career advancement is influenced by the fact that competitive, analytical, problem-solving and assertive characteristics ascribed to men, perpetuate the belief that they are better suited for leadership positions (Singh, Terjesen and Vinnicombe, 2007:314). Ibarra and Obodaru's (2009) research however indicates that the stereotypical perception of women as less competent leaders may be changing, possibly as a result of the performance of the few role models who have made it to the top and a decrease in the type-casting of women into a domestic role.



- **Inhospitable organisational culture**

The term “*organisational culture*”, earlier referred to as “*organisational climate*”, first appeared in the literature in the 1960’s. An equivalent term, “*corporate culture*”, was coined in the 1970’s (Hofstede, 1997:179). The study of corporate culture gained impetus from the early 1980’s and has proliferated since. The increased diversification of workforces has prompted researchers to explore the impact of exclusionary white male-dominated cultures on minority groups, including women. The devaluation of difference as a fundamental weakness in organisational culture was however already identified by Kanter as early as the 1970’s (Kanter, 1977).

Women experience masculine organisational culture as inhospitable and a barrier to career success. Power in such organisations is asserted within the context of “*hegemonic masculinity*” (O’Connor, 1996) resulting in androcentric values and practices being viewed as the norm and female values and practices devalued as a deviation (Beatty, 2007:38-39).

Numerical representation of women in lower end positions is not sufficient to influence a dominant masculine culture. It can be argued that the equitable representation of women at senior level alone will also not address the problem. What is required is a change of cultural norms where women are valued as competent and accepted as equal participants in the organisation.

- **Lack of role models**

The presence of suitable role models in the gender demographics of organisations is essential to the career advancement of women. As role-models, senior women serve as affirmation that career progression is possible despite existing barriers. Social comparison theory suggests that individuals identify role models based on actual or perceived similarities. It is therefore essential for organisations to have women in executive positions with which women can identify. The lack of role models in managerial positions discourages women who strive for professional success and negatively impacts on their motivational and commitment levels. Lack of role models has been cited as the second largest barrier to career success, with sex-role stereotyped leadership identified as the single most influential barrier (Singh, Vinnicombe and James, 2006:1; Sealy and Singh, 2009:2).

- **Exclusion from informal networks**

A number of researchers (Luthans, Hodgetts and Rosenkrantz, 1988; Singh *et al.*, 2006:2) have identified networking as the largest predictor of managerial success and argue that it is directly linked to career advancement. Networks serve to bring individuals with a common interest together. This relationship building tool is used to develop a support base which could be beneficial to one's work or career in terms of job opportunities, access to information, increasing visibility, career guidance, social and professional support, business leads, resources and collaboration (Vinnicombe and Kumra, 2006:2).

Research (Simpson and Altman, 2000) on the impact of social networks indicate that a notable percentage of senior positions are held by men, directly as a result of personal contacts made through exclusive male networks. Simpson and Altman (2000:196) conclude that male networks have a negative effect on women's careers and this barrier intensifies towards the top of the hierarchy.

Ramsay (2000:6-8) identifies women's exclusion from networks as a major contributing disadvantage to their career progression. Organisations should adjust their development strategies to incorporate training, mentoring and network inclusivity. Cross and Armstrong (2008:608) view women's inclusion in social networks as critical to professional success due to the benefits it has for career advancement. Women are disadvantaged by their current exclusion and female managers experience great difficulty accessing male constructed informal organisational networks.

Chesterman (2001) reports that the increasing awareness of the value of networking in addressing the lack of attention given to women's leadership potential has led to the establishment of formal networking initiatives such as the Australian Technology Network Women's Executive Development Programme (ATN WEXDEV). As a result of this initiative the five leading Australian Universities who constitute the consortium have developed a flexible strategic career development program for women. Of great significance is also the opportunity for collaboration borne from this initiative which establishes a critical mass of senior professional women and thus counteracts the isolation experienced by so many women once they have reached the top.

The establishment of female networks could provide a structured basis for collaboration and the sharing of knowledge and information. Such social interaction not only provides an opportunity for incidental informal learning which has been identified as essential to career progression, but constitutes a platform for support. Networks can assist women in gaining insight into processes and methods through which they are excluded. This knowledge may provide them with strategies to overcome these artificial barriers.

### **Personality characteristics influencing the success of professional women**

Duffy *et al.* (2006b:554) based their selection of personality characteristics which are most likely to influence success on previous research which indicated that high self-efficacy, an internal locus of control and a strong need to achieve are variables predicting career success.

- **Self-efficacy**

There is evidence in existing literature that motivation and performance is influenced by individuals' perceptions of their own effectiveness. Duffy *et al.* (2006b: 555-556) stress the impact of individuals' confidence in their ability and effectiveness in overcoming barriers. Self-efficacy can be defined as "*people's beliefs about their capabilities to produce designated levels of performance that exercise influence over events that affect their live*" (Bandura, 1994:1). Self-efficacy determines an individual's perseverance and resilience to barriers, ultimately determining their level of accomplishment. Perceived self-efficacy is not determined by the individual's skills, but their belief in their capability to apply these skills to different circumstances (Duffy *et al.*, 2006b: 555-556). Individuals with high levels of self-efficacy are not only likely to set more challenging goals, but are also better equipped to persevere when confronted with challenging situations.

*Sonpar and Kapur* (2003: 26) recognise the relationship between gender role identity and self-efficacy by suggesting that women with a more egalitarian view of the role of women have a better sense of self-efficacy and have the confidence to pursue careers traditionally associated with males. In contrast, women who demonstrate a high level of femininity, have less confidence in their ability to succeed in these occupations. Collective action through social modeling is

required for the development of efficacy in women as the success of other successful women serves as a motivator for confidence in one's own efficacy.

- **Internal locus of control**

Internal locus of control reflects the measure of confidence individuals have in their ability to control the outcomes of their actions. Individuals with a strong internal locus of control accept responsibility for success as contingent on their own actions and not on external forces. They are more likely to engage in actions to improve or control their environment, tend to manage their careers and place greater emphasis on achievement (Duffy *et al.* 2006a:10). Individuals with an external locus of control not only blame outside forces for their failure, but also attribute their success to external influences.

- **Need for achievement**

Individuals demonstrating a high need for achievement are more likely to overcome barriers to success as they are willing to work hard and indicate a preference for challenging tasks (Duffy *et al.*, 2006a: 11). They are intrinsically motivated, result-oriented and work to capacity to excel, generally making them successful in business and in entrepreneurial activities.

### **Cultural variables influencing the success of professional women**

Several researchers from an array of disciplines, including sociology, psychology and anthropology, have endeavoured to define culture. A general definition is the shared values, views and beliefs of a group, transferred from one generation to the next. For the purposes of this paper the research is based on the shared beliefs of South Africans.

The four variables selected to represent cultural dimensions are drawn from Hofstede's widely researched cross-cultural variables: individualism/collectivism, power distance, uncertainty avoidance and masculinity.

- **Power distance**

Hofstede's first cultural dimension, conveys the degree to which a society regards differences in power as right and appropriate as opposed to the belief in equality and the ability to rise to any

level, notwithstanding birth or status (Duffy *et al.*, 2006a:63). Hofstede defines it as the difference between the extent to which a boss can determine the behaviour of his or her subordinate and the extent to which the subordinate can determine the behaviour of the boss (Hofstede, 1980: 72).

- **Uncertainty avoidance**

Hofstede's second dimension, uncertainty avoidance, can be described as the degree to which a society values certainty to ambiguity and the degree of risk-taking that the members of that society consider as appropriate (Duffy *et al.*, 2006a:63). It relates to how the members of a society tolerate uncertainty (Hofstede, 1980:110-147).

- **Individualism/collectivism**

The third dimension, individualism/collectivism, relates to the degree to which a society places value on individual as opposed to group contributions and to the importance individuals attach to their immediate family group versus the wider society (Duffy *et al.*, 2006a:63). Societies are regarded as individualistic when individuals are expected to take responsibility for themselves and their immediate family. Relative importance is attached to personal time, freedom and challenge. Collectivism pertains to societies in which people from birth onwards are integrated into strong, cohesive in-groups, which continue to protect them during their lifetime in exchange for unquestioning loyalty (Hofstede 1997:51). Collectivists attach value to training, physical conditions and use of skills.

- **Masculinity**

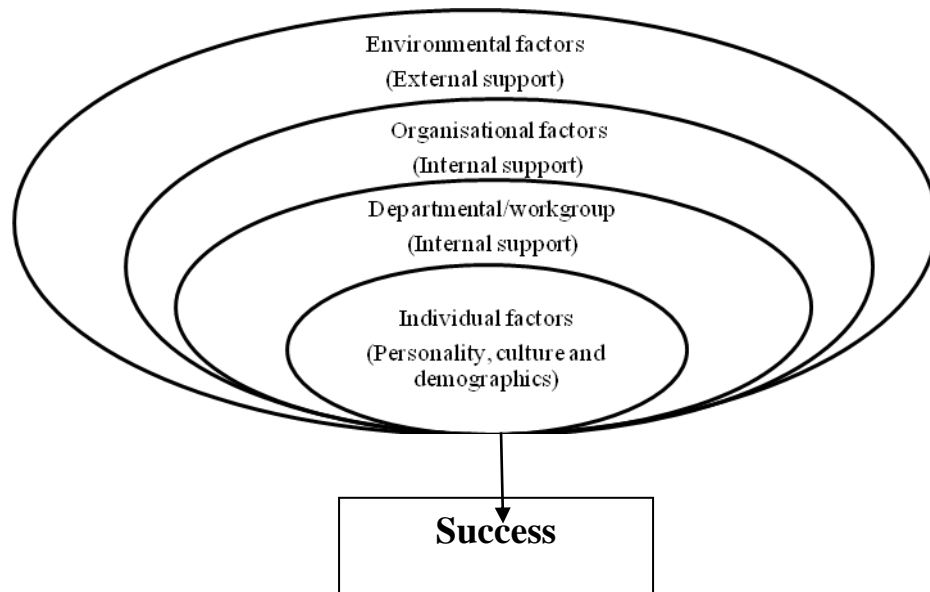
The fourth dimension, masculinity, denotes the degree to which gender values are accepted in a society. South Africa, as do most other countries, sustains a patriarchal society where men dominate and women play a subservient role. If these values are enacted in the corporate environment, it is likely that gender role differentiation will be imposed in the workplace, perpetuating the perception that women are not suitable for positions traditionally occupied by

men. Duffy *et al.* (2006a:68) excluded masculinity from their study on the grounds that it is not clear how it relates to personality characteristics. Research however points to the tendency that countries scoring lower on masculinity have a more equalitarian view on the abilities of women which is reflected in job distribution and women's representation in leadership positions (Roffey, 2006:6). Hofstede (1997) also identified a positive correlation between a country's femininity score and the participation of women in higher level technical and professional jobs. It can therefore be argued that women operating in a low-masculinity culture will be better positioned to exhibit and develop the personality attributes associated with high achieving women. Masculinity was therefore incorporated into the current paper.

### **CONCENTRIC MODEL OF PROFESSIONAL SUCCESS OF WOMEN**

The concentric influences model was developed by Duffy *et al.* (2006a:6) as a first step in prioritising the many influences on professional success and is presented in Figure 1. This model identified influences on professional career success in concentric circles, denoting the proximity of each factor in relation to professional success

**FIGURE 1: CONCENTRIC INFLUENCES MODEL**



*Adapted from the study of Duffy et al. (2006:6a)*

The concentric influences model in Figure 1 can provide a starting point to develop a framework to investigate factors that influence professional success of women.

## **VARIABLES FOR INCLUSION IN THE PROPOSED FRAMEWORK**

It is proposed that one dependent variable be included in the proposed framework and six independent variables.

### **Dependent variable: Professional success**

Salary and hierarchical progression appear to be the most general indicators of success. Defining professional success is however complicated by personal perceptions and the shifting of goal posts for career success. It could entail, amongst many other definitions, being an expert in your profession, possessing skills which enhance employability or receiving recognition for your accomplishments (Arthur, Khapova and Wilderom, 2005; De Vos and De Hauw 2010:8). Other researchers view success from a gender perspective and incorporate the achievement of work-life balance (Lyons, Schweitzer and Ng, 2009:7); job satisfaction; and personal fulfillment (Hopkins and O'Neil, 2007:132-134) into the definition. It could however be argued that women with high achieving aspirations to progress to the top of the hierarchy may not perceive success differently to men. The definition of success also adapts to the times and the environment and success for the modern day women in the upper echelons may differ substantially from women's perception of success two or three decades ago or of women at lower levels in the hierarchy.

Based on the literature reviewed, it appears that both individual perceptions and changing career environments impact on the definition of success. For the purpose of this paper, professional success is defined as having progressed to an executive management or leadership level in your career. This is considered to be an indicator of success which can be objectively determined from biographical data provided by respondents in an empirical study.

### **Independent variable: Personality**

Derived from the concentric model, personality variables are hypothesised to be most closely related to professional success. Women's personality characteristics vary regardless of

socialisation within the same national culture. The characteristics selected for the purpose of this paper is self-efficacy; internal locus of control; and need for achievement.

- Self-efficacy, defined as “*people’s beliefs about their capabilities to produce designated levels of performance that exercise influence over events that affect their live*” (Bandura, 1994:1), determines an individual’s perseverance and resilience to barriers, ultimately determining their level of accomplishment.
- Internal locus of control influences success as internals are more likely to engage in actions to improve or control their environment, tend to manage their careers and place greater emphasis on achievement (Duffy *et al.* 2006a:10).
- Individuals demonstrating a high need for achievement are more likely to overcome barriers to success as they are willing to work hard and indicate a preference for challenging tasks (Fox, 2006a: 11). They are intrinsically motivated, result-oriented and work to capacity to excel.

### **Independent variable: Culture**

The national culture in which individuals are brought up is a primary determinant of their behaviour which can impact on professional success. It defines the human group in the same way that personality defines the individual. Personality and culture interact to the extent that cultural traits can sometimes be measured by personality tests (Hofstede, 1980:21). In this paper, as was the case in the study of Duffy *et al.*, (2006a:61) the focus is on the interaction of culture with the expected personality characteristics of successful professional women.

As there is no generally accepted academic definition of culture, it is defined for the purpose of this paper as “*the shared beliefs of a nation*” (Duffy *et al.*, 2006a:62), therefore national culture. It is argued that the historical, political, economic and cultural context of a nation shape the behaviour of its people. The influence is enhanced by the likelihood that national culture has an effect on organisational environments and culture. It is acknowledged that South Africa does not have a homogenous national culture. Hofstede (1980:29) however argues that modern nations possess dominant national character traits which can be exposed by survey studies and by the comparison of measurable data on society level. The other traits stem from their sub-cultures



(demographics in this paper), such as age, ethnicity, gender, religion, educational level and socio-economic status.

For the purpose of this paper it is reasoned that the majority of women in managerial and leadership positions in South African organisations would have assimilated into the mainstream and that they subscribe to Western work-related cultural values, irrespective of ethnicity. Four of Hofstede's identified cultural dimensions can be included in the framework, namely power distance, uncertainty avoidance, individualism/collectivism, and masculinity. These measures are perceived as likely to distinguish countries from one another and the focus in this paper is on the interaction of culture with the expected attributes of successful professional women.

- Where power distance is high, success is dependent on the imposed limitations of permitted behaviour in relation to an individual's position in society. The expression of personality traits is constrained by these limitations. In the case of low power distance, performance is evaluated in terms of the individual's ability and not status. Achievement, self-esteem and internal locus of control can be expressed without the constraint of permitted behaviour in relation to the individual's position.
- Where uncertainty avoidance is high, performance is guided by structure and rules. Need for achievement, self-efficacy and internal locus of control would be expressed within the constraints of firm policies and procedures. Where uncertainty avoidance is low, freedom and flexibility is valued. Individuals are more willing to take risks and as a consequence these personality characteristics may be expressed in terms of openness to new opportunities and risks.
- In more collective societies, personality characteristics valued may be the ability to work with others in socially acceptable ways and associated with group effort. In more individualistic societies the need for achievement, self-efficacy and internal locus of control may be expressed in terms of personal or individual ability, effort and hard work.
- Masculinity denotes the degree to which gender values are accepted in a society and if these values are enacted in the corporate environment, it is likely that gender role differentiation will be imposed in the workplace, perpetuating the perception that women are not suitable for positions traditionally occupied by men. It can therefore be argued that

women operating in a low-masculinity culture will be better positioned to exhibit and develop the personality attributes associated with high achieving women. Success is dependent on the imposed limitations of permitted behaviour in relation to an individual's gender. The expression of personality traits is constrained by these limitations. In feminine societies, performance is evaluated in terms of the individual's ability and not gender. Achievement, self-esteem and internal locus of control can be expressed unconstrained.

### **Independent variable: Demographics**

The influence of background demographics on professional success is multi-faceted, ranging from birth order to socio-economic status. Demographic variables perceived to impact on professional success were identified by Duffy *et al.* (2006:9) through a literature review on careers, leadership, entrepreneurship, gender roles, women, international management and organisational behaviour. These included year of birth, birth order, and gender of siblings, ethnicity, education level, parent's education level and profession, marital status and number and age of children. The proposed framework includes profession and hierarchical order as factors potentially influencing success.

### **Independent variable: External support**

External support for the purpose of this paper has been identified as family support, professional associations, government initiatives, pressure from feminist groups and awards and the creation of role models.

- Family support is essential in light of the fact that one of the biggest challenges for career women remains the fact that they are generally primarily responsible for households and their families. Commitment from partners to share in domestic and family responsibilities advances women's mobility. Family support further constitutes skills and attributes acquired during the formative years in the family setting and a supportive environment which encouraged education and fostered confidence.
- A number of professional associations for networking have proliferated in the last decade. These associations provide women with an alternative to internal organisational networks from which they are excluded due to their homogenous nature.

- Government initiatives include the Employment Equity Act of 1998 and quota legislation introduced in a number of countries in the past decade in an effort to increase women's representation in leadership positions.
- Government initiatives were influenced by the feminist movement, dating back to the fifteenth century and active since the 1850's. An important milestone was the granting of voting rights to women.
- Women's groups and organisations continue to challenge exclusionary practices and are instrumental in the development of support initiatives to advance women. One such initiative is awards and the creation of role models. The increasing number of awards presented internationally to successful business women gives visibility and exposure to the recipients and contributes towards encouraging, motivating and inspiring other women. Access to role models can also be created through internal support systems.

### **Independent variable: Internal support**

Internal support, as is the case with external support, has an effect on career barriers and is consequently instrumental in the eradication of barriers to professional success. Internal organisational support impacts on barriers by providing career development opportunities such as training, mentoring programmes, access to networks, provision of psychosocial support and access to role models.

- The development of competencies through training initiatives impacts on employability and professional success. Women in particular benefit, given the lack of earlier investment in their individual capital (De Vos and Hauw, 2010).
- There is strong evidence of a relationship between mentoring and coaching and professional success in existing literature, with both contributing substantially to equipping women with skills and competencies required to succeed (Dreher and Ash, 1990; Woolnough and Davidson, 2007; Peltier 2010:259-260; Ibarra, Carter and Silva 2010). Mentoring can have both a career (challenging assignments) and a psychosocial function (enhancing the individual's perception of self worth) (Woolnough and Davidson, 2007:156). It is argued that coaches play an important role in eradicating structural, social and interpersonal barriers to women's professional success and that assigning mentors to potential female leaders, fast-tracks career development by building confidence and acting

as a gateway to senior staff members. Kosoko-Lasaki and Voytko (2006:1449) emphasize the importance of mentoring at all levels in promoting excellence. Peltier (2010: 260) suggests that coaches have the ability to enhance the career development and effectiveness of women, whilst organisations will benefit from the expanded pool of female expertise.

- The management and leadership style within an organisation can either hamper or impact positively on professional success. A more transformational or participative style is more likely to provide an inclusive environment supportive of diversity and the advancement of women than for example an autocratic or transactional style. Leadership development programmes for both men and women are required in order to develop skills in which women leaders may be lacking; and for educating men in transformational leadership style. The management style of the women themselves is an influential factor in that women's leadership style in present-day conditions is regarded as more effective (Eagly and Carli, 2003).

### **Independent variable: Career barriers**

It is argued in this paper that a number of persistent barriers hamper women's professional success despite an increase in education levels and entry into the labour force. It is further argued that eradication of the barriers will positively influence professional success. Interpreting existing barriers will thus provide a framework for identifying the internal and external support most likely to promote women's professional success.

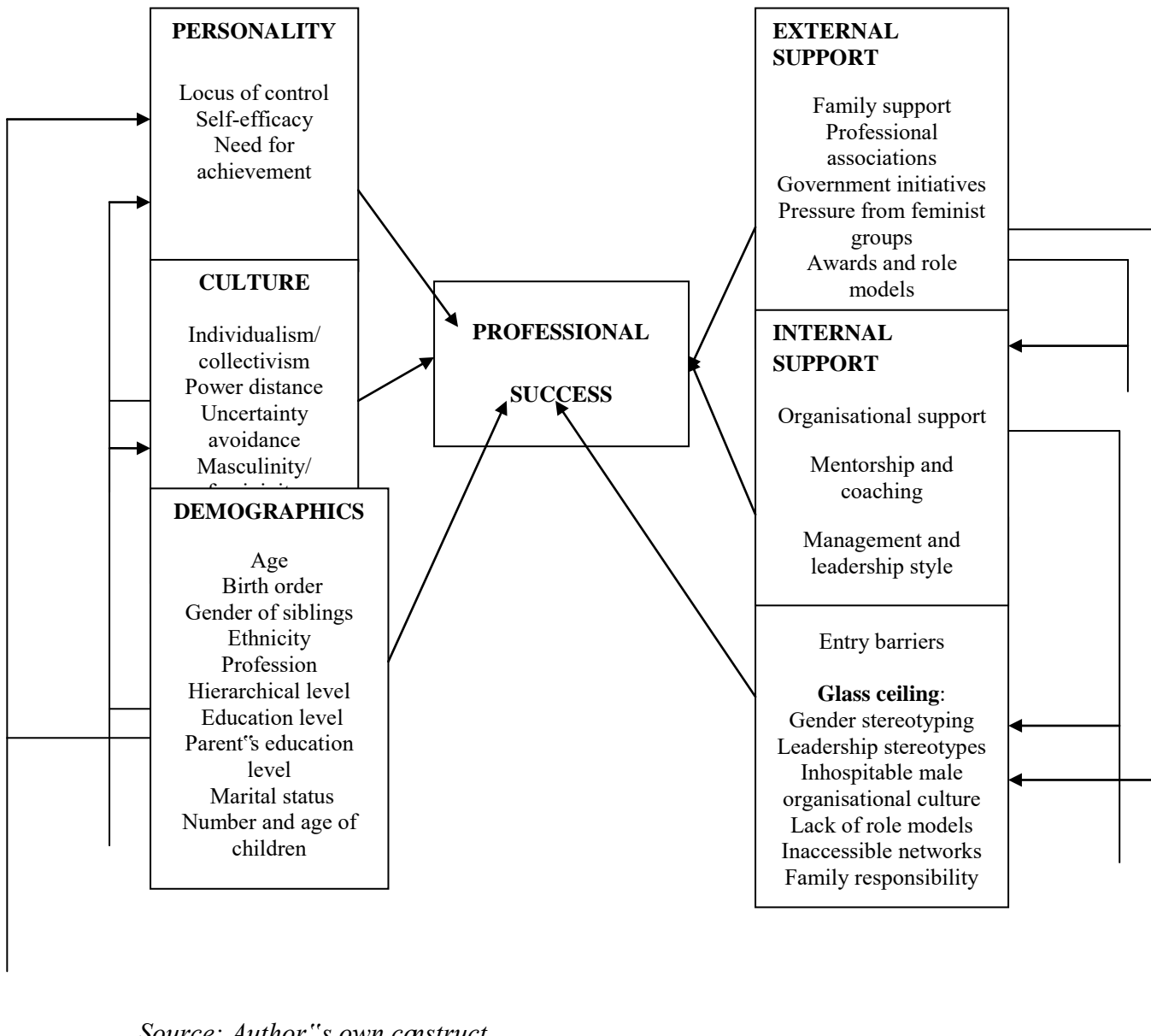
- Persistent barriers to professional success are argued to culminate in a glass-ceiling, barricading women's progress beyond middle management of their professions (Carr-Ruffino, 1993:12; Simpson and Altman, 2000:190; Falk and Grizard, 2003:6; Daft, 2010:353).
- Most of the entry barriers to the labour force have been eradicated due to earlier intervention by women's groups and government legislation, but a number of other barriers remain intact. A core barrier uniting women is their multiple role commitment where they are still viewed as primarily responsible for domestic chores and for their family (Hewlett, 2002).

- A further barrier is gender stereotyping where women are typically stereotyped as lacking in ability to deal with the challenges of senior management (Bilimoria, Godwin and Zelechowski 2007:234; Beatty, 2007:34; Dunn-Jensen and Stroh, 2007:23).
- A number of researchers have found that gender leadership stereotyping has led to a perception both men and women hold that men are, by virtue of their gender, more successful as managers and that women's leadership attributes rank lower in importance to leadership effectiveness than the attributes of male leaders (De Vries, 2006:118; Sheridan and O'Sullivan, 2006:286-296; Singh and Point, 2006; Hopkins and O'Neil, 2007:136-137).
- Literature on management (Laxton, 2008) identifies inhospitable organisational culture as a major barrier to women's professional success. Androcentric values and practices define women as subordinate and not suited for management and leadership positions (O'Connor, 1996; Beatty, 2007:38-39).
- Lack of role models has been cited as the second largest barrier to career success, with sex-role stereotyped leadership placed at the top (Sealy and Singh., 2009:2; Singh, Vinnicombe and James, 2006:1). As role models, senior women serve as affirmation that career progression is possible despite existing barriers.
- Inaccessible networks as a consequence of masculine organisational culture have been identified as a major barrier to professional success. Researchers (Luthans, Hodgetts and Rosenkrantz, 1988; Singh *et al.*, 2006:2) view networks, bringing individuals with a common interest together, as one of the most fervent predictors of managerial success.

In light of evidence that many of the historic entry barriers into educational, business and professional institutions have been removed, the proposed framework will establish which barriers persist in barricading progress to leadership positions.

Figure 2 presents the proposed framework that demonstrates the interconnectedness of factors impacting on professional success.

**FIGURE 2: THE PROPOSED FRAMEWORK**



*Source: Author's own construct*

Derived from the literature the proposed framework depicted in Figure 2 can be used to investigate factors that influence professional success of women.

Suggestions in existing literature for initiatives which may contribute to the professional advancement of women include the following:

- Dispelling prejudice and ensuring objectivity in performance evaluations;
- Identification of development needs;

- Promotion of managerial skills in which women excel;
- Development of skills in areas where women lag behind;
- Modification of organisational development strategies to incorporate training, mentoring and network inclusivity;
- Establishment of female networks and formal networking initiatives;
- Flexible strategic career development programmes for women;
- Collective action through social modeling for the development of efficacy in women.

## **GUIDELINES FOR THE IMPLEMENTATION OF PROPOSED FRAMEWORK**

The proposed framework can be empirically tested to identify the most prominent factors determining the professional success of South African women. The results of such an empirical investigation can focus on the variables considered to be the best predictors of success for women in the pipe-line or entering the employment sector. Such findings should provide guidelines for the implementation of the proposed framework for the purpose of accelerating equal representation of women in executive positions through both internal organisational interventions and increased external support.

## **DISCUSSION AND CONCLUSIONS**

A number of factors influencing the professional success of women were identified and put into a proposed framework (See Figure 2). These factors included barriers to career success and those factors influencing women's ability to overcome the barriers. The factors influencing women's ability to overcome career barriers and achieve professional success are categorised as personality, interconnected with culture and demographics, and support through its impact on career barriers. These factors could be instrumental in the gradual increase in women achieving professional success as reflected in recent statistics (BWA, 2010).

It is argued that the identified factors influencing success are responsible for some women managing to overcome organisational and societal barriers whilst others are less successful.

After a critical literature review, a concentric influences model was presented, reflecting the first step in the development of a proposed framework. This is followed by the proposed framework

demonstrating the factors impacting on the dependent variable, professional success. Six categories of independent variables influencing professional success were identified and their interconnectedness illustrated. The proposed framework can be used to test empirically whether and to what extent these variables influence the professional success of women. A number of hypotheses can also be developed to test the proposed framework.

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**CROUCH, TOUCH, PAUSE, ENGAGE: THE ENGAGING OF HUMAN  
RESOURCES MANAGEMENT DURING RESTRUCTURING IN A  
TERTIARY INSTITUTION**

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**Format:** Competitive research paper

**Topic:** Management education

**Key words:** Human resources management engagement, stress, impact, performance

# **CROUCH, TOUCH, PAUSE, ENGAGE: THE ENGAGING OF HUMAN RESOURCES MANAGEMENT DURING RESTRUCTURING IN A TERTIARY INSTITUTION**

## **ABSTRACT**

This paper reports on stress during restructuring in a tertiary institution in New Zealand and compares it with South African legislation. Stress can enhance a person's performance; excessive stress can have a reverse impact on a person's health resulting in lower productivity. The aim of this research is the engaging of HR to minimise the impact of stress on staff effectiveness and performance.

With quantitative research data was collected. The survey was distributed electronically to 291 participants comprising of staff from "Faculty A" at a Tertiary Education Organisation (TEO) in Auckland and the response rate was 20.3%.

The findings of the study demonstrate high positive results with regards to factors that cause stress within organisations during organisational restructuring. This indicates that stress was not managed up to staff expectations during the restructuring at the chosen TEO and the impact was more severe than was expected.

## **INTRODUCTION**

The Rugby World Cup 2011 is scheduled for September and October in New Zealand. Construction companies, hospitality organisations, training organisations and numerous other businesses are stressing to get everything ready and in order for the event. There is the other side of the coin as well, the financial side. It is a well known fact that there is a downturn in the global economy experienced by all organisations, large or small. This downturn in the current economy is one of the reasons for restructuring causing stress within organisations and it is at an all time high. Budget cuts, limited resources and layoffs have lead to a tremendous increase in stress among people within the work force due to the uncertainty that prevails in the current environment (Belmonte, 2008). The Department of Labour (New Zealand) confirmed that the Health and Safety in Employment Act 1992 was promulgated to include all employers and work

places. The Act was amended in 2002 to specify “work-related stress” (Rudman, 2011). It puts the emphasis on the need to address stress management within the work place as the amended Act allows an employee to sue their employer for causing undue stress. Therefore, to reduce risk and ensure the best performance by staff it is important for an organisation’s Human Resource (HR) department to engage on all levels to minimise stress within their organisations.

Restructuring has three main dimensions. The first comprises of the transformation in the way teaching and learning occurs within educational organisations. The second dimension comprises of the transformation in the occupational situation of staff including conditions of school structures, conditions of lecturers’ work in organisations and the decision making processes. The third dimension comprises of transformation in the distribution of power between schools and its clients or in the governance and incentive structures under which academic institutions function (Dimmock, 1999). Marriott, du Plessis, Pu (2011) state further that educational organisational restructuring is becoming necessary due to globalisation and internationalisation of education. With increasing students travelling overseas to acquire a qualification, there is a constant requirement for educational organisations to change their business practices by reshaping their basic ways including the design, management style and delivery of their academic practices. This view is also supported by Du Plessis and Frederick (2008).

When referred to the word “staff” in this paper, it includes management, administration and lecturers in a Faculty (it will be referred to as “Faculty A”). Staff members are unsure about their job security at the chosen Tertiary Education Organisation (TEO) due to restructuring taking place. Job security is one of the stress factors identified by Clausen and Petruka (2009). During this period of changes and uncertainty it is important to manage stress. These stress factors have to be identified and addressed by the HR department. By managing stress while providing a better work environment and support, “Faculty A” staff would be able to perform more effectively in their respective roles (Kardam, 2005). This in turn could help the organisation in performing to its utmost potential as a tertiary institution.

This research discusses HR's engagement in stress management issues among staff during organisational restructuring to enhance human resource efficiency and how neglecting stress within an organisation can have a significant impact on staff performance. These issues need to be addressed so as to provide guidelines to management for a better working environment.

When an organisation undergoes restructuring, redundancy is considered as one of the main stress factors that staff experience during such a process. In South Africa the Basic Conditions of Employment Act is clear about compensating staff as a result of redundancy. This, however, was not defined in any New Zealand statute until the Employment Relations Act (ERA) was amended in 2004 (Rudman, 2011). The ERA now requires all collective employment agreements to encompass an employee protection provision to defend any staff/employee that is made redundant. Staff that is made redundant due to the restructuring should be financially compensated as part of the redundancy entitlements if stated in their employment contracts. This would help support staff for part of a period that they will be jobless.

When making staff redundant as a result of restructuring, it is also vital for an organisation to justify the dismissal for redundancy by illustrating valid grounds for terminating a particular position. Poor performance should not be considered a factor for making staff redundant as redundancy cannot be adopted by an organisation as an excuse to dismiss staff when the actual problem could be lack of performance or misconduct. Hence, management should keep this in mind when carrying out such tasks. After a staff member was made redundant an organisation should also not replace that position or employ someone else to do similar work as it could result in unjustifiable termination leading to court proceedings, according to Rudman (2011).

Data was collected from all eight departments of the TEO's "Faculty A" staff. The reason for selecting and examining the three categories of staff was to ensure an adequate sample size for the research and to fairly represent "Faculty A" in different discipline areas which forms the basis of this research. All proposed plans, implementation processes and outcomes have been assessed, documented, tabled and graphed.

## **PROBLEM STATEMENT**

The problem is, what stress factors could be managed to enhance staff performance in an organisation during restructuring and what is the impact of stress on staff. This research also identifies how stress and performance relate to each other and also identifies the relationship between stress and job performance. The role of the HR department in addressing (crouch) identifying (touch) and discussing (pause) and then engaging to minimise the impact of stress is also highlighted in this paper.

## **RATIONALE AND AIMS OF THE STUDY**

According to Scott (2008) stress within an organisation is inevitable and hard to escape. However adopting certain stress management strategies can help lower stress within an organisation which forms the rationale for this study.

The aim of this study is to highlight HR's role to recognise and classify issues and factors having an impact on staff during restructuring. There are five main areas in this research, but due to limitation of the length of this paper only the last three (c, d, e) are reported on in this paper:

- a) To theoretically study organisational stress management.
- b) To identify the factors that cause stress within an organisation by carrying out a survey.
- c) To determine the impact of restructuring on staff.
- d) To get information from Faculty staff by carrying out a survey about how stress relates with staff performance.
- e) To determine methods and guidelines by which stress can be managed among staff to improve staff performance and in-turn an organisation's efficiency.

Three hypotheses were derived from these areas but only H3 is discussed in this paper:

H1- Restructuring has raised stress during the restructuring of "Faculty A" and had an impact on staff.

H2- Stress correlates with staff performance in an organisation during restructuring.

H3- Stress can be managed among staff during organisation restructuring.

## LITERATURE REVIEW

Poor stress management can lead to loss of job interest and responsibility among staff, poor competency and reduced staff performance. Organisational stress has also been related with significant work related outcomes comprising of organisational commitment, job satisfaction including staff withdrawal behaviour (Fairbrother & Warn, 2003). Managers within an organisation can either prevent or then create stress among staff they manage as a result of their management style. Thus, managers must have a good understanding of the kind of behaviour they must demonstrate so as to manage staff in the least stressful manner. Hence, HR managers and managers play an important role in identifying and dealing with organisational stress.

According to a study carried out at the Otago Polytechnic (New Zealand), organisational restructuring has a significant impact on employee commitment. Brauch as cited in Theissen, (2004) mentions that in the current age of restructuring and downsizing work commitment is viewed differently. Many staff within organisations supports the change process simply to secure their jobs rather than having any attachment to it. Work commitment plays an important role impacting staff performance and their efficiency from a manager's point of view. Organisations can effectively manage and maintain staff commitment during restructuring by communicating periodically with staff, planning in advance, respecting staff seniority and ensuring that the organisation's values and objectives are clearly aligned and communicated (Theissen, 2004).

Restructuring if not undertaken appropriately can cause distress among staff within an organisation. Stuart as cited in Raukko, (2009) mentions that organisational restructuring and change can cause trauma, catastrophe and abuse among staff. The same author further indicates that organisational restructuring can have a negative impact on staff as it can lower their morale, increase stress levels, lead to loss of control and direction, create uncertainty and anxiety as well as reduce staff loyalty within an organisation. It can also have an impact on management functions comprising of training, recruitment, planning, staff compensation and organisational development (Du Plessis 2009; Belohlav & LaVan, 1989).

Appelbaum, Henson and Knee, (1999) state that organisation downsizing if not planned properly can result in psycho social problems among staff not affected by downsizing collectively known as “survivor syndrome”. Such survivors tend to become narrow minded, risk averse and self absorbed which results in lowered self-esteem and loyalty in-turn affecting the organisational functioning. They continue to state that many organisations fail downsizing due to poor management and the existence of unmanaged resistance.

During organisational restructuring, social change in an organisation can also arise when there is disparity between the organisational environment and systems. Social change refers to an action such as restructuring that affects and influences a group of people with shared values and characteristics. The change is likely to have a negative impact on staff and systems when disparity between the organisation environments is increased and a positive impact when it is reduced (Young, 1977).

Certain amount of stress is essential for an individual’s development, growth, change, performance at work and in their personal lives. Brief, as cited in Larson, (2004) states that stress to an extent can help enhance our effectiveness and performance. An example would be a promotion which can be quite an exciting yet a challenging experience. Stress if not managed properly can lead to individual stressors which are harmful to both staff as well as their organisations. Hence the more stressors that prevail within the work environment even as a result of restructuring, the more stressed out staff will feel which in turn can result in lowered performance.

Therefore, excess stress of any kind can result in physical, psychological and behavioural problems leading to poor work performance and frustration. This is because excess stress enables us to perform well only to a certain extent after which a person’s performance tends to decline (Larson, 2004).

When stress is high within an organisation for example during organisational restructuring, it is important for managers to think and act in a positive manner. This helps reduce stress among subordinates and other staff members as staff tend to act in accordance to how management

reacts during such times. The methods and guidelines stated below are of double the importance for managers as compared to other staff comprising of lecturers and administration staff (Nadia, 2009).

### **Enhance communication**

- Staff roles and responsibilities must be clearly defined.
- Staff must be made aware of their job prospects during restructuring to minimise ambiguity.
- Communication should be carried out regularly and efficiently among staff in a pleasant manner.

### **Conduct staff discussions**

- Staff should feel that they are valued by discussing scheduling of work activities and rules within the organisation.
- Encourage staff participation in decision making.
- Assign appropriate workload among staff that matches their skills and abilities.

### **Provide staff incentives**

- Reward staff for their achievements.
- Offer career development prospects for staff.
- Congratulate staff verbally and by offering certificates of merit based on their performance.
- Create a friendly work environment.

### **Develop a social environment**

- Social gatherings among staff should be carried out from time to time.
- Harassment at work should not be accepted (Belmonte, 2008).

## **METHODOLOGY**

### **Sample Selection**

Based on the topic of this research it was anticipated to carry out the study among staff members within an organisation where restructuring has currently been undertaken to determine their stress levels and its impact on staff. Hence, “Faculty A” staff was selected for carrying out this research as some departments of the organisation have already undergone restructuring while



other departments are still in the process. Thus staff members from eight departments (in total 291 staff) in the same Faculty were considered the appropriate sample for this research as they had all been influenced by the restructure to a certain extent. According to CRS, (2009) “the larger the sample size, the more certain you can be that their answers will truly reflect the population”.

### **Questionnaire Development**

The questionnaire was developed and categorized in six parts. The first part comprised of demographic data pertaining to participant’s age, category, level and duration of service. The second part comprised of eight common factors that cause stress during organisational restructuring which included work overload, job security, longer work hours, role knowledge, inter role conflicts, lack of training, lack of management support and organisational commitment. The participants had to answer questions pertaining to each of the eight factors.

The questionnaire contains 32 questions subdivided into the eight most commonly occurring organisational stress factors. Each question within the questionnaire is assigned 5 marks. Hence the total marks for the 8 stress factors would be 32 (i.e. no. of questions) x5 (i.e. no. of marks) = 160 marks overall. Part of this questionnaire was developed on a study carried out by Theissen (2004), which was based on the impact of organisational restructuring on employee commitment at the Otago Polytechnic in New Zealand.

The remaining four parts of the survey included the factors that cause stress within an organisation, the impact of restructuring on staff, identifying how stress relates with staff performance and determining how stress can be managed. These last four parts of the survey were not given any rankings.

Six fellow colleagues including staff were invited to carry out the pilot test by completing an online survey prior to sending out the survey link to all other respondents. Participants on average spent between 10 to 15 minutes to complete the pilot survey. After conducting the pilot study only three modifications were made to the final survey which was then sent out to all other respondents at the beginning of August 2009.

### **Questionnaire Data Collection**

Data pertaining to this study was collected electronically via e-mail that was sent by the researcher to all “Faculty A” staff members of the TEO. The staff members comprised of lecturers, administration staff and management. The e-mail included a link to an online survey that was sent out to 291 participants out of which 59 staff members completed the survey thus a response rate of 20.3% was achieved.

### **Data Analysis**

The data pertaining to the surveys were exported to Microsoft Office Excel for analysis. All data was imported from an online tool called Survey Monkey which was used to carry out the surveys electronically via e-mail. Many tables and charts were developed using Excel to portray the results of the survey.

Some of the data was also quantitatively analysed using Statistical Package for Social Science (SPSS) programme. The SPSS programme was selected due to the numerous advantages that it provides for analysing quantitative data.

The degree of errors was reduced as data was directly collected online and not entered manually as in the case of physical (hard copy) surveys. The data from the survey was analysed by means of descriptive statistics comprising of percentages.

## **ANALYSIS OF THE RESULTS**

The focus of this research is to highlight HR’s role to recognise and classify issues and factors having an impact on staff during restructuring by obtaining staff’s perspectives and the engagement of HRM to minimise and to manage stress. The analysis indicated that staff members are dissatisfied in general. It is alarming that 62% of the respondents responded that management did not plan and did not support the changes carefully in the organisation while only 22% rarely feel that management has been as honest with bad news as good news about changes to the organisation during restructuring.

This research has identified that the majority (55%) of the respondents distrust management decisions regarding the future of the organisation and trust therefore is only 24%, while 21% feel

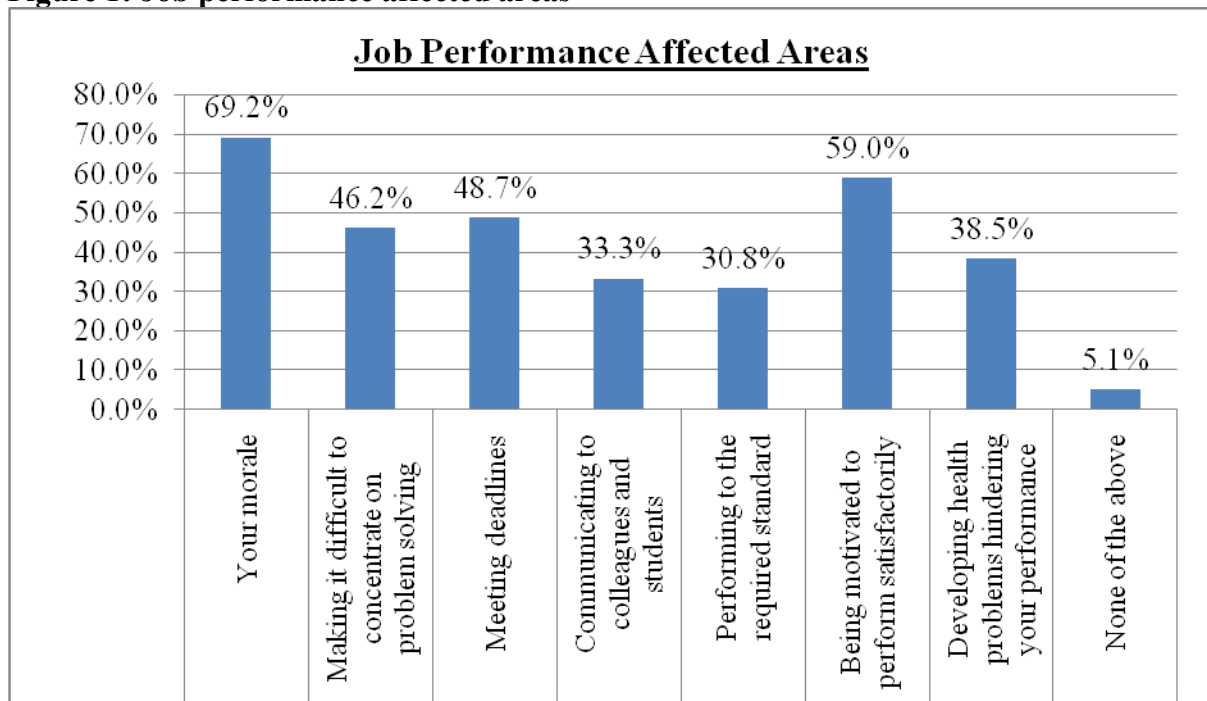
this way from time to time. It can therefore be deduced that the staff do not trust senior management in making sensible decisions for the organisation’s future. It should be of great concern for management that 80% of the respondents disagree with some of the organisation policies relating to its staff and only 23% of respondents are always loyal, while more than half (55%) is unsure and only feel loyal from time to time

**The impact of restructuring on staff**

The respondents were asked: “According to you, has stress affected your job performance in your morale, problem solving, meeting deadlines, communicating to colleagues and students, performance, motivation, developing health problems or none of them”?

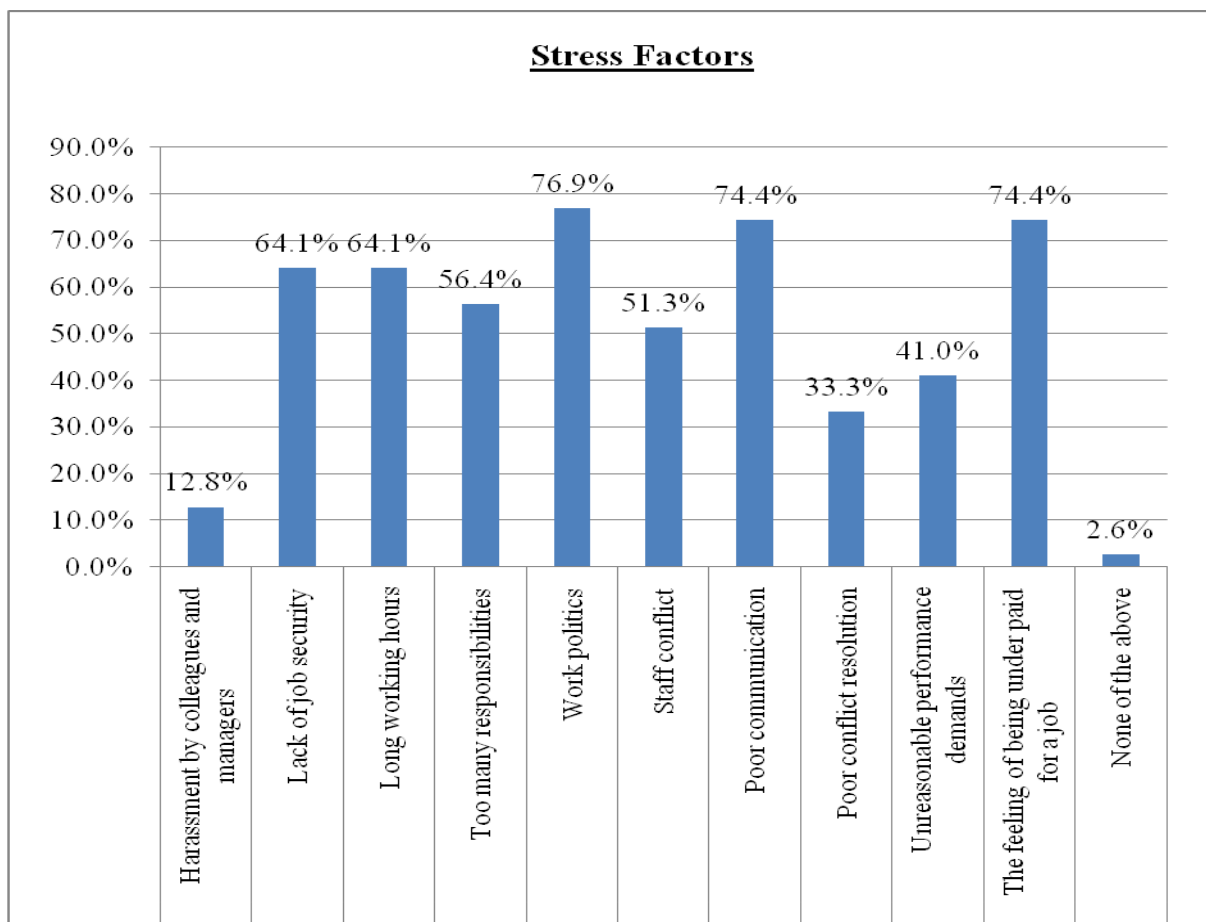
It was found that the impact of restructuring was severe on morale relating to job performance which was given a rating of 69.2%. It can be deduced that morale is linked to the percentage of respondents (78%) who indicated that they consider to leave the organisation, in other words to loyalty. A lower consensus showed being motivated to perform satisfactorily at 59% and meeting deadlines at 48.7% along with difficulty to concentrate on problem solving at 46.2% were other job performance affected areas as a result of the restructure.

**Figure 1: Job performance affected areas**



To further determine the impact of stress on the staff the question was put to them: “Which of the following stress factors have you experienced during the restructuring process”? This question required respondents to mark as many of the stress factors that applied to them. Three main areas of concern for management that they should address are: work politics at 76.9% followed by poor communication at 74.4% and the feeling of being underpaid for a job at an equal rating of 74.4%. These were considered as the top three stress factors by staff as a result of restructuring. A lower consensus, but still a factor for concern for management, showed lack of job security at 64.1% and longer working hours with an equal rating of 64.1% as other stress factors as a result of the restructure. Management will have to address longer working hours as soon as possible because of the consequences it might have with the OSH Act. On the other hand harassment by colleagues and managers was given the lowest stress factor priority at 12.8% by the respondents.

**Figure 2: Stress factors during restructuring: impact on staff**



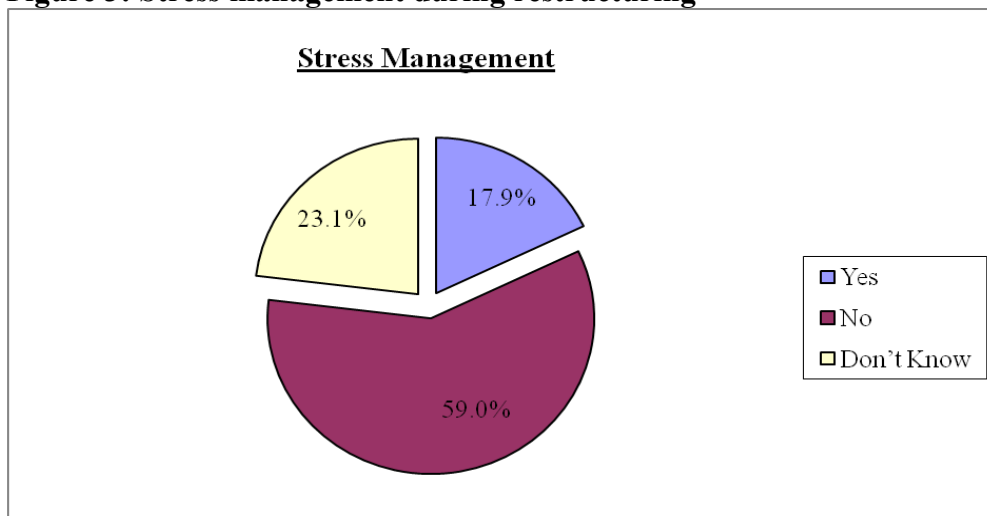
### **How stress relates with staff performance.**

Performing to the required standard was given the lowest priority of 30.8% by the respondents and is something that management must take seriously into account. It can be deduced that the respondents lost some of their interest in standards due to the continuous re-structuring at the TEO. It is another serious area for management to address and it is definitely linked to the problem with morale and loyalty (see Figure 1 above).

### **How stress can be managed among staff to improve staff performance and in-turn an organisation's efficiency.**

The survey participants were asked the question “In your opinion, do you believe that stress was managed properly during the restructure”? This question required participants to answer by agreeing to the statement as in “Yes” or then disagreeing to the statement as in “No”. The result shows that the majority of the respondents (59%) disagreed to the fact that stress was managed properly during the restructure. Only 17.9% of respondents on the other hand disagreed with the statement and believed that stress was managed properly during the restructure while 23.1% neither agreed nor disagreed with the statement. See Figure 3 below.

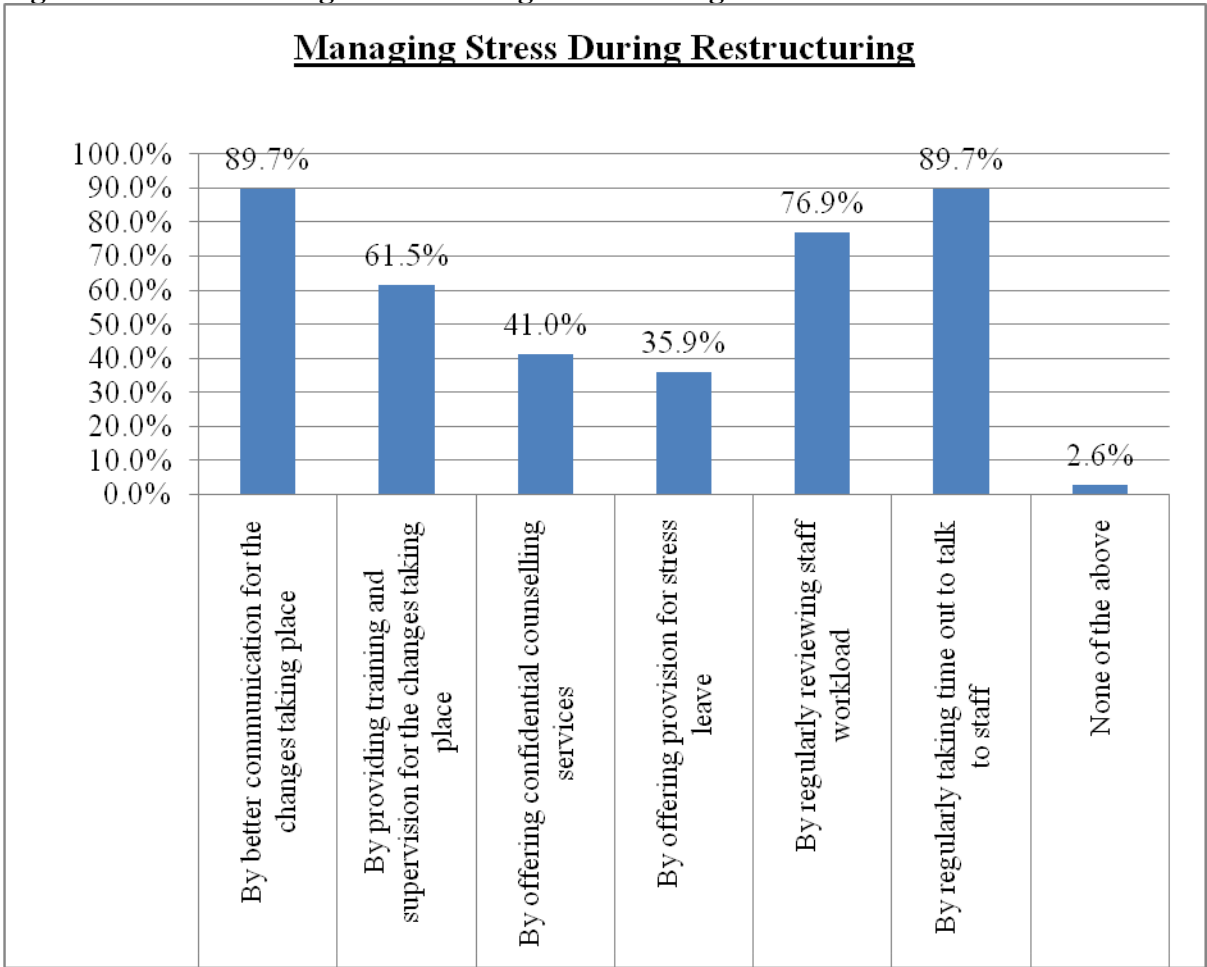
**Figure 3: Stress management during restructuring**



Another question was: “In your opinion, how can stress be managed and minimised in an organisation during restructuring”?

The results (Figure 4 below) illustrate that communication for the changes taking place along with regularly taking time out to talk to staff were given the highest and equal rating of 89.7% by respondents in order to minimise and manage stress more effectively during restructuring. A slightly lower percentage showed that regularly reviewing staff’s workload at 76.9% and providing training and supervision for the changes taking place at 61.5% along with offering confidential counselling services at 41% were other stress management techniques. Offering provision for stress leave was given the lowest priority of 35.9% by respondent’s which is still at a high and is something that management must take into consideration.

**Figure 4: How to manage stress during restructuring**



### **H3- Stress can be managed among staff during organisation restructuring.**

When asked how stress can be managed and minimised in an organisation during restructuring, besides the stated areas in Figure 4 above, staff commented on the following issues shown in the summary below (Table 1):

**Table 1: Staff comments on managing of stress and minimising thereof**

<u>Other:-</u>
<ul style="list-style-type: none"><li>• By speeding the process as far as practicable.</li></ul>
<ul style="list-style-type: none"><li>• By understanding the organisation BEFORE restructuring takes place.</li></ul>
<ul style="list-style-type: none"><li>• By ensuring equal workloads as some particularly admin staff are doing much higher workloads than others, only because they are more capable which is unfair.</li></ul>
<ul style="list-style-type: none"><li>• By managers ensuring support and encouragement that is given to administration staff.</li></ul>
<ul style="list-style-type: none"><li>• Making senior management aware of people's stress.</li></ul>
<ul style="list-style-type: none"><li>• The rationale for changes is no longer clear. There are no clear institutional goals. ACT on staff feedback. Some staff members know much more than their managers. We know the consequences if it goes wrong - qualifications are compromised and students migrate for e.g. latest Bach of Acc and Fin experience.</li></ul>
<ul style="list-style-type: none"><li>• Any change is stressful, no matter how many communications there are. But certainly lots of communication will help alleviate the stress to an extent.</li></ul>

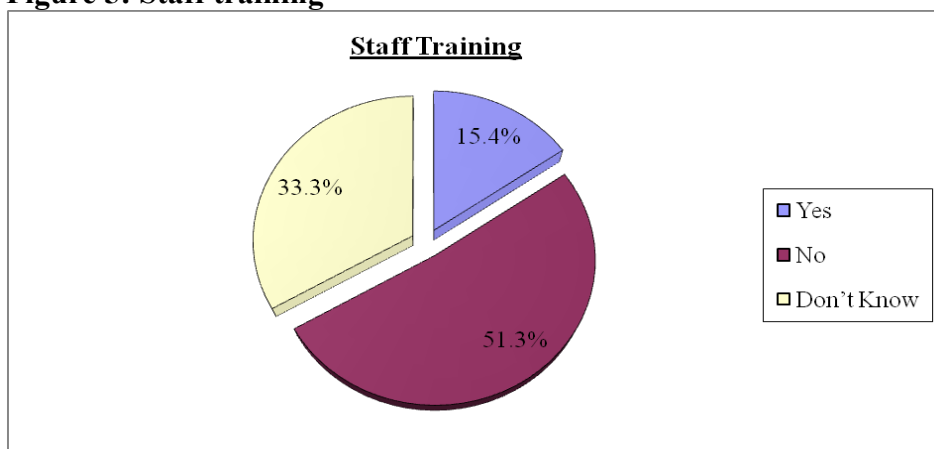
### **The role of the HR department in addressing (crouch) identifying (touch) discussing (pause) and then engaging to minimise the impact of stress**

The respondents were asked the question “In your view, has staff received adequate training to keep up with the changes within the organisation”?

The result shows that more than half of the respondents (51.3%) disagreed to the fact that they received adequate training to keep up with the changes within the organisation. An insignificant 15.4% of respondents on the other hand agreed with the statement that they received adequate training, while surprisingly a third (33.3%) of respondents neither agreed nor disagreed with the statement. It can be deduced that the high percentage of respondents neither agreeing nor disagreeing with the statement is because the restructure is still in process and many staff

members at present still don't know the outcome of the change and how it is likely to affect them and their current role according to the feedback obtained from the questionnaire. This is no excuse for the HR department not to do training of the staff to minimise stress. In addressing changes during training sessions, the stress it caused staff could be identified by HR. Discussion and or communication during training sessions will also be a stress reliever for some staff. If the HR department is actively engaged in the restructuring process, stress could be minimised and staff would have trust and confidence in them to openly talk to them as they would to counsellors.

**Figure 5: Staff training**



## **RECOMMENDATIONS FOR THE LEADERSHIP TEAM OF THE TEO**

Although offering of stress leave was given the lowest priority of 35.9% by the respondents it is something that management must take into consideration to offer to employees.

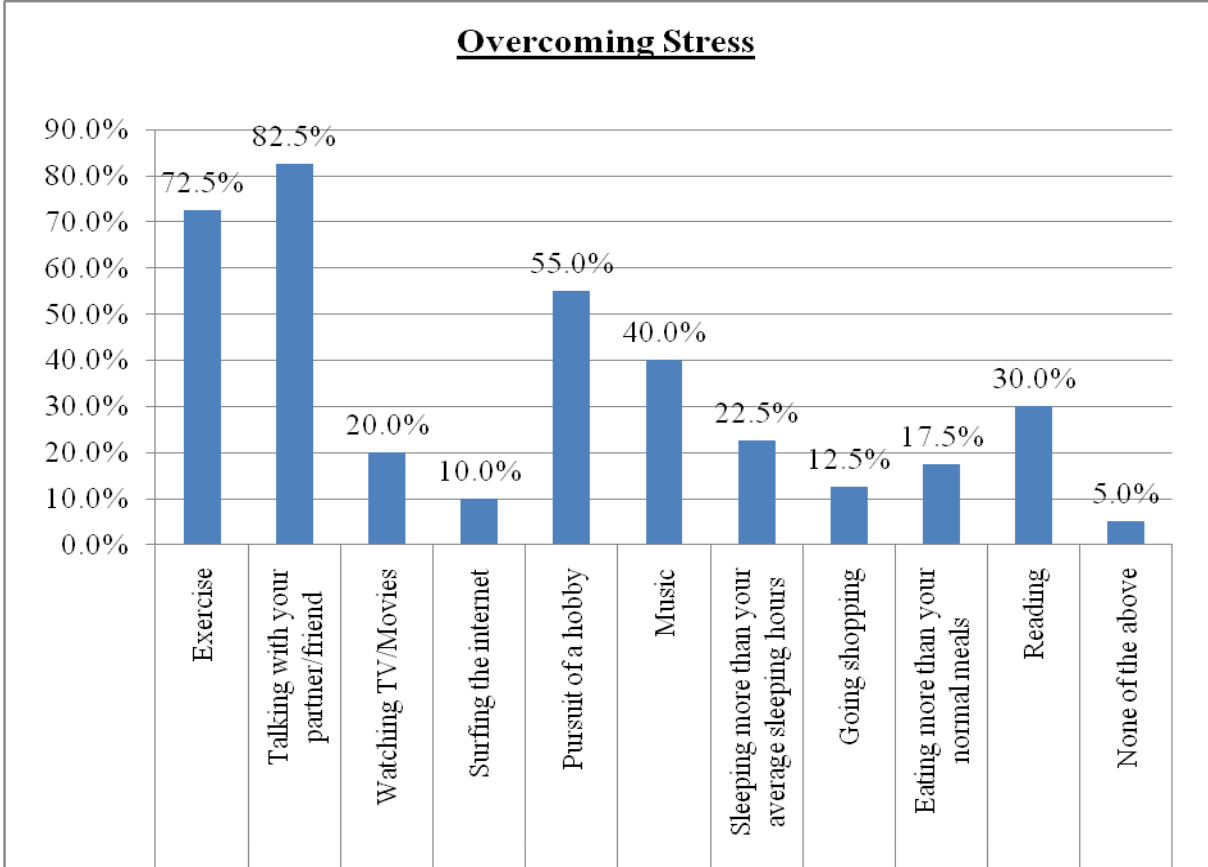
McPherson, (2008) states that educational institution's morale is usually low among staff members as they complain about salaries not matching inflation and due to extreme work pressure during restructuring. Therefore, management can ensure staff morale is attained by following a number of basic procedures such as regularly checking the flow of communication; monitoring leave to ensure that staff get a break from the daily work routine; listening to any issues that staff have; regularly determining levels of control; and most importantly asking staff themselves as to what motivates them (Sue, 2003).



To boost staff morale the leadership team should implement a schedule of morale boosters: conduct annual parties; publicise staff achievements and contributions; encourage staff to pursue further education; give staff authority to perform their tasks independently where and when possible; empower staff; greet staff at the start and end of the day; offer special anniversary gifts to acknowledge staff that have been within an organisation for “X” amount of years; have a honour day to honour staff contributions; conduct meetings at different venues and display employee of the month either monthly or then quarterly on the organisation top achievers board and reward high achievers.

The HR department should give guidelines and encourage staff members, during training sessions, to overcome stress and they could advice staff members to follow any of the methods in Figure 6 below.

**Figure 6: Overcoming stress methods**



The respondents made some recommendations to management in answering the question: “If you experienced stress during the restructuring time, which of the following do you think assisted you in overcoming your stress”?

The results (in Figure 6 above) illustrate that talking with a partner/friend (82.5%), exercising (72.5%), pursuit of a hobby (55%) and listening to music (40%) are some of the ways of reducing and overcoming stress within an organisation during restructuring.

The final recommendation is that stress could and should be managed firstly by HR which engagement was pointed out and discussed above and then by the leadership team. Figure 4, above, depicts the areas and how this should be done by HRM and the leadership according to the respondents.

## **CONCLUSION**

The TEO’s leadership team and HR department should use the results of this survey to identify the impact that restructuring has on such staff and their performance. The leadership team of the TEO could also be informed how the stress experienced by staff during the re-structuring including the influence/affects it had or still has on them can best be managed. It was also expected that a greater response rate would be achieved if the research had the backing and support of such an organisation’s body. Organisation support when carrying out surveys helps to develop trust and confidence among the respondents while encouraging staff to see the need of such an exercise (Lusty, 2007).

H3 is that stress can be managed among staff during organisation restructuring of “Faculty A”. This hypothesis is found to be positive. The three main research areas (of the five) as well as H3 to determine the impact of restructuring on staff; to get information from “Faculty A” staff by carrying out a survey about how stress relates with staff performance; to determine methods and guidelines by which stress can be managed among staff to improve staff performance and in-turn an organisation’s efficiency during restructuring are all answered. Some of the key issues that respondents raised with regards to the restructure were as follows:

- 60% of respondents did not feel secure of their jobs at the TEO during the restructure.
- 78% of respondents feel that after the restructure their new role interferes with their personal life and interests (e.g. social, religious and family) which are neglected due to lack of time causing stress.
- 81% of respondents feel that the scope of promotion is limited within staff roles due to restructuring, increasing their stress levels.
- 55% of the respondents distrust management decisions regarding the future of the organisation.
- 80% of respondents find it difficult to agree with some of the organisation's policies on important matters relating to its employees and only 23% of respondents are always loyal, while more than half (55%) is unsure and only feel loyal from time to time or often.

The respondents also raised some further issues with regards to the restructure which are as follows:

- Unfavourable work politics during the restructuring process.
- The feeling of being threatened by the restructure.
- A conventional, autocratic and authoritarian approach/style in carrying out the change at the TEO.
- How the stress caused, due to the restructure, has affected staff performance by lowering their morale.
- A total of 89.7% of the respondents responded that stress can be managed and minimised during restructuring through better communication. Regularly reviewing staff workload was also regarded important by 76.9% of respondents to manage stress.
- Management should reduce the fear of failure at all times as it leads to many people not performing up to expectations and standards

Stress factors are very closely related to a person's perception of his/her work environment. Stress management should be the responsibility firstly of the HR department and then the leadership team to ensure that their entire staff can perform to their utmost potential by monitoring and managing all stressors within the work environment. There must be clear and

two way communication with feedback to overcome some of the stressors. If a solution to a problem is not found, it can lead to lower efficiency, poor staff morale and a considerable impact on the physical and psychological health of staff. Some recommendations were given in the previous section.

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**EFFECTS OF PERCEPTIONS OF SELF, JOB ATTRACTIVENESS AND  
ACADEMIC REPUTATION ON UNIVERSITY STUDENTS'  
SELECTION OF BUSINESS SCIENCE MAJORS: AN EMPIRICAL  
ANALYSIS**

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# **EFFECTS OF PERCEPTIONS OF SELF, JOB ATTRACTIVENESS AND ACADEMIC REPUTATION ON UNIVERSITY STUDENTS' SELECTION OF BUSINESS SCIENCE MAJORS: AN EMPIRICAL ANALYSIS**

## **ABSTRACT**

Absent from literature in the Southern African higher education context is the relative influence of different aspects of career anchor perceptions upon nascent career choice decisions. The purpose of the study is to empirically investigate one University undergraduates' perceptions of the comparative worth/utility of studying Business Science disciplines in terms of : understanding of self (aptitudes, values and interests), job attractiveness ( job prospects, earning potential, non-salary benefits and work-life balance ), institution and discipline academic reputations.

Findings suggest that while perceptions of aspects of careers such as job and career prospects, generally dominate the choice of major subjects and subordinate the role of job/career interest in the selection of such majors, students studying HRM majors hold community oriented values that distinguish them from their peers. The findings are discussed in terms of extant theory and potential practical outcomes.

**Keywords:** Schein; Gottfredson; student perceptions; major subject choice; Business Science



## **INTRODUCTION**

Increasing changes in the structure of organisations have implications for career development and the career choices of individuals (Brousseau, Driver, Eneroth and Larsson, 1996; King, 2004; Schein, 1996). Changes in the nature of work associated with the shift from the industrial era to the knowledge area also have implications for both the concept of a job and for the role of managers (Brousseau *et al.*, 1996). Similarly, „new“ or „boundaryless“ careers such as careers based on contingency work or self-employment have emerged (King, 2004). Conceptions of careers have expanded to encompass both work and non-work domains (King, 2004). Further, “careers have a personal as well as a vocational meaning for many people; a complete picture of career self-management needs to consider people’s aspirations for their lives outside work” (King, 2004:117). Knowledge of student perceptions associated with aspects of the learning process in the contemporary tertiary education context are salient areas of research (Beckman and Rayner, 2011; Henige, 2011; Keller, Parker, and Chen, 2011.) as improved understandings of student perceptions can contribute to improvements in both teaching and learning (Henige, 2011; Tudor, Penlington and McDowell, 2010). This career literature reveals the increasing importance of individual perceptions and goals in career choice. A commonality underlying this body of literature is the argued importance of some kind of a match between an individual and a career in terms of interests, and the perceptions of real life career aspects and barriers.

## **PURPOSE/OBJECTIVES OF THE STUDY**

According to Gottfredson’s (1981) seminal work, individuals perceive career barriers, and on the basis of their perceptions goal compromise occurs. However, Swanson and Tokar (1991) question Gottfredson’s (1981) hypothesis that the process of confronting career barriers leads to goal compromise. Swanson and Tokar (1991) argue that barriers might be perceived as insurmountable by some yet merely as a more challenging experience for others. A tension exists between these conceptions.

According to Swanson and Tokar’s (1991) conception, if individuals do not necessarily modify their goals on the basis of their perceptions of career barriers, then a different set of relationships

between perceptions and career choice would be expected to be found. A stronger relationship would be expected to be found between students' values and interests and major subject choice than the relationship between real life perceptions of career barriers and major subject choice. On the other hand, according to Gottfredson's (1981) theory, if goals and therefore goal-associated behaviour is adjusted on the basis of perceptions of real life aspects of a career, then relatively more significant relationship would be expected to be found between such perceptions and the choice of a major subject. The assumption made here is that the choice of such a major subject is related to the student's potential career choice, on the basis of the information available to such a student at this point in time. In the absence of literature that tests these conflicting conceptions in the specific context of the Southern African tertiary education context, this study attempts to investigate this tension.

Specifically, Gottfredson's (1981) suggests that individual career aspirations develop through a process of „circumscription“ in which increasingly refined understanding about oneself and the world of work point to specific careers and occupations, these interrelationships are investigated. The paper applies Gottfredson's (1981) theory of „circumscription“ in investigating second and third year undergraduate students' perceptions of market, personal and institutional factors in these disciplines. It is anticipated that students' personal perceptions (understanding of self in terms of aptitudes, and work and community values), perceptions of job attractiveness and institutional perceptions become honed to the requirements of careers defined by studying business science disciplines at undergraduate level. And that certain specific disciplines out of a repertoire of: Business Information Systems (IS), Management, Human Resources Management (HRM), Finance, Insurance and Risk (IR), are seen as being more attractive than others to students in the Faculty and School of the University .

The objective of this research is to investigate career related perceptions of student major subject choice in an academic context. A secondary objective is to obtain insight into the different perceptions of students that have made subjective career choices proxied by perceptions of curriculum content and course prestige. Student perceptions of certain academic aspects of course provision are therefore also explored. However, the overriding aim of this paper is to investigate university undergraduate students' perceptions of the comparative attractiveness of certain

business science major subjects (Soutar and Turner,2002), personal (Gottfredson, 1981; Harvey-Beavis and Robinson,2000) and institutional factors such as course suitability and academic reputation (Baldwin, 1994). Central to the relationships around perceptions of work barriers and career perceptions is the seminal career theory of Schein, and the conception of „career anchors“.

An individual, at some point of the career /self-management process, will typically begin to make choices that are related to particular careers. The perceptions on which career development decisions are based are therefore considered especially salient (Schein, 1996). Schein (1996) suggests that the tension between the „external career“ and the „internal career“ indicates certain fundamental shifts in the nature of careers and career development. These changes therefore have significant implications for career decisions made by individuals (Schein, 1996).

Career decisions made prior to entry into a career are considered to be particularly important. Especially important, therefore, is the actual decision of which career to follow. A proxy for such career choice is necessarily the choice of how to prepare for entry into such a career. Therefore a measure of potential career choice is the major subject or subjects taken at higher education level in preparation for employment in such a career.

The „internal career“ “involves a subjective sense of where one is going in one’s work life, as contrasted with the „external career,” the formal stages and roles defined by organisational policies and societal concepts of what an individual can expect in the occupational structure” (Schein, 1996:80). An individual’s self concept is the basis of a „career anchor“ that maintains consistency in a career (Schein, 1996). The career anchor therefore provides consistency in the face of change and turbulence associated with an external career according to Schein (1996).

“A person’s career anchor is his or her self-concept, consisting of 1) self-perceived talents and abilities, 2) basic values, and, most important, 3) the evolved sense of motives and needs as they pertain to the career” (Schein, 1996:80). A further differentiation is stressed in this work on the basis of the core interests of individuals underpinning career anchor components. These core interest anchor dimensions are: a financial or remuneration interest orientation, a job interest

orientation where the job itself is the core interest anchor, and the service or community contribution anchor which is associated with a core interest in serving or helping others.

Despite the voluminous literature that relates career anchors to specific careers, to the authors' knowledge no research has been conducted into the relationship between individuals' perceptions of Schein's (1996) career anchors and subject choices in the South African higher education context.

It is maintained that knowledge about the interface between perceptions and career choices is especially salient at certain stages of an individual's career. For example, unrealistic career expectations can result in employee dissatisfaction (Granrose and Portwood, 1987). The stage at which an individual first decides to take a specific major subject at University is considered crucial and one where specific decisions can impact significantly on an individual's subsequent career trajectory.

However, a challenge exists with regard to subjective career choices at this point of an individual's development. "Most of us are not aware of our career anchors until we are forced to make choices pertaining to self-development, family or career" yet it is "important to become aware of them so that we can choose wisely when choices have to be made", according to Schein (1996:80). The extent to which an individual's career anchor perceptions are related to actual choices of careers, or to actual major subjects selections that stream tertiary education toward specific careers, is not currently known and a more fine-tuned understanding of the relationship between such perceptions and career choice is warranted.

## **PROBLEM INVESTIGATED**

The research attempts to present a clearer understanding of the relationship between career anchor perceptions and academic major subject choice. And a typology of perceptions relating to each major subject choice is developed on the basis of the investigation.

The following research questions are posed in this study:

- To what extent are self-perceptions comprising an individual's core career anchor associated with the choice of a specific major subject?

- What typologies of self-perceptions are associated with specific career?

Individual perceptions about major subject choices can be framed by an individual's specific set of interests and values. According to Schwartz (1992) an individual's values derive from a motivational infrastructure that draws from physiological, psychological and social needs. An individual's specific values endowment is associated with consonant behaviour (Schwartz, 1992). Furthermore, an individual's specific value orientation is expected to differ from that of others, and therefore to be associated with behaviour different from others (Schwartz, 1992). An individual's interests are therefore expected to reflect core individual values.

Perceptions are therefore framed by an individual's subjective experience of the world. Such knowledge informs to what extent such perceptions derive from an individual's underlying values and interests (Schwartz, 1992). Thus a further research question is posed:

- What career perceptions are associated with specific job interest anchors?

## **CAREER THEORY: HYPOTHESES**

A career is "the evolving sequence of a person's work experience over time" and career theory is "the body of all generalisable theory attempts to explain career phenomena" (Arthur, Hall and Lawrence, 1989:8/9). The focus of this research is at the point where a student has selected third year majors. Studies have exposed how information about careers in certain study fields can culminate in specific academic major selections. However, the individual is regarded to be at a stage where career choices begin to be more valid indicators of ultimate career selection.

Arthur *et al.* (1989) stress the multidisciplinary nature of career theory. One of the bodies of theory within the career literature that has given rise to much research is trait-factor theory.

Career theory has traditionally been dominated by the perspective that career outcomes for both organisations and individuals are best achieved through an alignment between the "individual's characteristics and the demands, requirements, and rewards of the organisational environment" (Betz, Fitzgerald and Hill, 1989:26). Theory and research findings associated with this perspective have focussed on individual trait differences in relation to career selection (Betz *et al.*, 1989).

One aspect of trait-factor theory concerns individual abilities such as verbal, numerical, and spacial abilities (Betz *et al.*, 1989). Swanson and Tokar (1991) found common factors to be associated with student concerns about career barriers such as those related to their ability and job market availability. On the basis of a review of the career literature Betz *et al.* (1989) point to research findings that indicate five to fifteen percent of the variance in performance is explained by ability. Thus, it seems reasonable to expect that individuals include perceptions of aptitudes as a basis for their career decisions. The following hypothesis is generated to test this aspect:

*H<sup>h</sup>*: There is a significant association between perceptions of *aptitude* and *major academic field subject choice*.

Notwithstanding the large amount of variance in job performance that is not accounted for by abilities or aptitudes, Betz *et al.* (1989) acknowledge Gottfredson's (1989) evidence that suggests that when education is controlled for, intelligence is associated with job performance.

Evidence supports the link between individual interests and job satisfaction and tenure in careers (Betz *et al.*, 1989). Needs, values and preferences relate to intrinsic or extrinsic outcomes associated with a career choice (Betz *et al.*, 1989). Across reviews of the literature, there is abundant support for the notion that a mismatch between the individual and the characteristics of a job associated with a particular career are associated with dissatisfaction and turnover (Betz *et al.*, 1989).

Betz *et al.* (1989) argue that the theory of work adjustment is the most comprehensive of the trait-factor theories. The theory of work adjustment arose through the Minnesota Studies in Vocational Rehabilitation, and a central tenet of this theory is that work adjustment or tenure on the job is a function of two employee characteristics: satisfactoriness and satisfaction in an interactional relationship with the work environment (Betz *et al.*, 1989). Satisfactoriness, or the successful performance of job responsibilities, is posited to be a function of an individual's abilities and the ability requirements of the job (*ibid.*). Satisfaction is conceived to be a function of an alignment between an individual's vocational needs and values with the systems in the work environment that reinforce these needs and values (*ibid.*). Therefore abilities and aptitudes are significant aspects of career theory, but also salient are an individual's vocational needs and values.

Aptitudes are one aspect of job performance, individual interests and values as a component of an individual's core career anchor (Schein, 1996) are another. An individual often makes career related choices on the basis of interests and values, as values which are typically underpinned by motivations (Schwartz, 1992).

Three dimensions of potential career anchor interests and values are tested in this work: a focus on financial remuneration, or financial interest orientation; the inherent satisfaction or interest in the job itself or a job related interest orientation; and contribution to society or community service interest orientation. On the basis of the literature, a further three hypotheses are derived (defined here in the form of their associated null hypotheses):

$H^{of}$ : There is no significant association between *financial orientation* and *major academic field subject choice*.

$H^{og}$ : There is no significant association between a *job related interest orientation* and *major academic field subject choice*.

$H^{oh}$ : There is no significant association between a *community interest orientation* and *major academic field subject choice*.

Further support for the inclusion of these interest or values dimensions is offered by Holland's theory. However, since Schwartz's (1992) values theory is prioritised, only three dimensions are drawn from the literature for testing. More fine-grained conceptions of the personality related effects of career choice are not expressly tested in this study. However, Holland's conceptions are briefly outlined in order to understand the relative placement of interests and motivations with regard to personality career theory. According to Holland, vocational satisfaction, vocational stability and vocational achievement are contingent upon an alignment between an individual's personality and the working environment (Betz *et al.*, 1989). According to this theory, six personality types are identified (Betz *et al.*, 1989):

- The realistic, which is typically associated with technical interests.
- The investigative, which is associated with intellectual or scientific interests.

- The artistic, which is associated with creativity.
- The social with is associated with an interest in working with other people.
- The enterprising, which is associated with persuasion or leadership.
- The conventional, which is associated with an interest in structure or detailed computational activity.

Congruence between an individual's personality and the work environment will lead to increased tenure, and the environment will also be expected to exert an influence upon the individual towards congruence (Betz *et al.*, 1989). In an extensive review of the career literature, Betz *et al.* (1989) indicate that Holland's theory is generally supported by the evidence. However, also present in the literature are findings that identify significantly large numbers of incongruent employees within certain careers (Betz *et al.*, 1989). Other theorists have stressed other antecedents of career choice than personality. Super (1980), for example stresses the influence of life space roles in career theory. Such roles, and role conflict, are necessarily associated with expectations (Super, 1980). Expectations are taken to be underpinned by perceptions, both of the career and of the self. According to Betz *et al.* (1989) Holland's theory does not sufficiently encompass the role of self perceptions in career theory. It is expected that personality differences will to some extent be expressed as differences in interests and values.

Ascription is typically defined as "the extent to which individuals are assigned certain behaviours, rights, etc., on the basis of their membership, usually by birth, in certain categories such as race, sex or religion" (Marwell, 1975:445). According to Marwell (1975) the nature of careers will determine the degree to which ascription occurs in the contemporary career context. For example, Marwell (1975) argues that if skills are demanded in a field, and if these skills are not related to an arbitrary factor such as gender, then such a career field will not typically reflect the predictions of ascription theory. To the extent that a large national university consists of male and female undergraduates of different racial background and religious persuasions who are preparing for entry into professional fields increasingly open to all, ascription is not expected to significantly act as a constraint on career choice or as a significant aspect of an individual career anchor.



Career barriers have typically been considered to fall into two types: external, such as wages or discrimination and internal, such as motivation or psychological aspects (Swanson and Tokar, 1991).

Swanson and Tokar (1991:96) investigated student perceptions of career barriers, and categorised these as social/interpersonal barriers or “barriers regarding one’s family of origin and future marriage and children”, attitudinal barriers defined as “self-concept, interests, and attitudes toward work”, or interactional barriers which are related to demographic characteristics, education, experience and the working environment.

An interaction between these internal factors and perceived career related obstacles in the social or economic environment is expected to influence career decisions (Gottfredson, 1981). As career barriers are experienced, to some extent individuals compromise their goals in the face of perceived reality (Gottfredson, 1981). For Gottfredson (1981) the weaker self concepts face modification before deeper rooted self-concepts such as gender are affected. An individual recognises and responds to different career barriers that are associated with different barrier domains: self-concept, social and economic environment in the interaction between self-concept and environment (Gottfredson, 1981). Thus an adaptation or goal adjustment will occur on the basis of an individual’s perceptions of self and the socio-economic environment. And differences in career choice, and major subject choice, will be expected to be associated with differences in underlying career related perceptions. To test these aspects the following hypotheses are generated. Each is shown in the form of the null hypothesis.

$H^{0a}$ : There is no relationship between *career specific job prospect perceptions* and *major academic field subject choice*.

$H^{0b}$ : There is no relationship between perceptions of *career specific future earnings potential* and *major academic field subject choice*.

$H^{0c}$ : There is no difference between perceptions of *specific career prospects* and *major academic field subject choice*.

$H^{0d}$ : There is no difference between perceptions of *career specific future non salary work benefits* and *major academic field subject choice*.

$H^{0e}$ : There is no difference between perceptions of *career specific work-life balance* and *major academic field subject choice*.

The behaviour of an individual that is used to influence gatekeepers or people in a position to influence career outcomes, and to counteract conditions that impede career outcomes is termed career self-management for King (2004). According to King (2004) three co-occurring behaviours dynamically comprise career self-management behaviour. These are firstly, positioning behaviours which focus on facilitating the contacts, skills and experience associated with outcomes; secondly, influencing behaviours which are associated with influencing gatekeepers; and thirdly, boundary management which is associated with the balance of work and nonwork domains (King, 2004). Of relevance to this study, one type of positioning behaviour suggested by King (2004) is strategic investment in human capital, or investment in training or educational qualifications. One factor that might contribute to a choice of education is the value of such investments to potential gatekeepers (King, 2004). Such values might be expected to be reflected in career salary structures or communications about employment opportunities regarding educational qualifications required for a specific career. This information may influence subsequent career decisions. However this aspect is considered beyond the scope of the current investigation.

## **RESEARCH METHODOLOGY**

The study utilises an exploratory quantitative cross sectional correlation design and is „causal“ in so far as it tests specific hypotheses and the problem is structured (Ghauri and Gronhaug, 2002). The sample consists of all second and third students studying Management or Human Resource Management of the School of Economic and Business Sciences who were willing to participate in the study. Participation was entirely voluntary and participants were assured of confidentiality by the researcher. This amounted to 131 second and third year students in HRM and Management from a population of approximately 355 students in all, comprised of 125 HR and 230 Management students. Although the sample was not randomly selected, over a third of the students completed the questionnaire which indicates that the sample is likely to be representative of the population that made up the focus of the study. The study incorporates a specially

developed questionnaire that uses both ten-point semantic (differential items and items arranged on a five point Likert- type scale. The questionnaire incorporates five sections. The first section elicits biographical information including: year of study, gender and majors being studied. Section two elicits students' perceptions of market demand in terms of the various business science disciplines on offer at the University. The third section measures student's personal work interests and values. Section four relates to students' perceptions of their own personal aptitudes; numerical, verbal and spatial. Section five elicits student perception regarding the content and status of the University's qualifications.

Statistical analyses involve descriptive and inferential techniques including: reliability analysis, factor analysis, frequencies and calculations of central tendency, correlations and tests of differences by groups. The processes of the statistical testing are outlined as follows.

**TABLE 1**  
**Perceptions of Career Job Prospects, Earnings Potential, Career Prospects and Non Salary Benefits: Univariate Analysis Measures of Central Tendency and normality**

<i>Variables</i>	<i>Mean</i>	<i>Median</i>	<i>Mode</i>	<i>Skewness</i>	<i>Kurtosis</i>	<i>Shapiro-Wilk W significance</i>
<i>Age</i>	22.54	21	21	1.49	15.8	Yes
<i>Job prospects (JP)</i>						
<i>JP: Information Systems</i>	7.17	8	10	-.999	.831	Yes
<i>JP: Marketing</i>	6.53	7	7	-.575	1.44	Yes
<i>JP: Finance</i>	7.70	8	8	-1.62	3.56	Yes
<i>JP: Management</i>	6.54	7	8	-.780	.599	Yes
<i>JP: Human Resources Management</i>	6.29	6	6	-.605	.998	Yes
<i>JP: Industrial Relations</i>	6.32	6	6	-.747	1.70	Yes
<i>Earnings potential (EP)</i>						
<i>EP: Information Systems</i>	7.41	7	7	-1.07	1.92	Yes
<i>EP: Marketing</i>	6.75	7	6	-.556	2.24	Yes
<i>EP: Finance</i>	8.26	9	10	-1.89	5.70	Yes
<i>EP: Management</i>	7.02	7	7	-.889	2.26	Yes
<i>EP: Human Resources Management</i>	6.08	6	6	-.245	2.59	Yes
<i>EP: Industrial Relations</i>	6.76	7	7	-.709	2.52	Yes
<i>Career Prospects (CP)</i>						
<i>CP: Information Systems</i>	7.17	8	10	-.933	-.04	Yes
<i>CP: Marketing</i>	6.85	7	7	-.754	1.16	Yes
<i>CP: Finance</i>	7.69	8	10	-.975	1.42	Yes
<i>CP: Management</i>	6.91	7	6	-.405	.482	Yes
<i>CP: Human Resources Management</i>	6.37	7	7	-.294	.210	Yes
<i>CP: Industrial Relations</i>	6.37	6	6	-.170	.048	Yes
<i>Non salary benefits (NSB)</i>						
<i>NSB: Information Systems</i>	6.35	7	7	-.234	-.317	Yes
<i>NSB: Marketing</i>	6.95	7	7	-.557	.329	Yes
<i>NSB: Finance</i>	7.13	7	8	-.653	.588	Yes
<i>NSB: Management</i>	6.87	7	7	-.459	.452	Yes
<i>NSB: Human Resources Management</i>	6.06	6	5	-.033	-.347	Yes
<i>NSB: Industrial Relations</i>	6.02	6	5	-.172	-.472	Yes

*Note: mean median and mode are tested using SAS. Skewness, kurtosis and Shapiro Wilk measures are SPSS output.*

The initial research design included the use of T-tests to ascertain if differences in the career anchor dimensions and the range of different perceptions were associated with each of the subject major choices. Certain limitations were recognised from the start. The sample was not a randomised sample drawn from a universal general population and was instead drawn from students that were registered for a commerce degree. This obviously has a significant bearing on the generalizability of the findings

A univariate analysis gave insight into the central tendency and the dispersion characteristics of the data. This information is reported in Tables 1, 2, 3 and 4 respectively. Histogram plots were checked for normality. The research design included both parametric and non parametric options for each process of the testing. Where non normality in the data was identified non parametric measures were used instead. ANOVA and t-test procedures were included as part of the initial research process and the univariate analysis was undertaken in order to check the appropriateness of the use of these methods. Distribution plots such as the probability-probability (P-P) and quantile-quantile (Q-Q) plots were visually checked. The findings of the visual reports are indicated in Tables 3 and 4. Outliers from the lines generated were noted, and shape differences from the line indicated data for further univariate numerical analysis. Descriptive tests for skewness and kurtosis were applied. Data that reflected skewness values that differed from zero, either to the right or to the left, and kurtosis values different from three were investigated further. The skewness and kurtosis values for the entire set of variables are reported in Tables 1 and 2. The Shapiro and Wilk test W statistic was used for each of the non binary variables. Data with values away from one or closer to zero were identified for further analysis in terms of normality. The sample size of the study (n=130) fell into the range considered appropriate for the Shapiro-Wilk test, of 7-2000 data points. The significance of the Shapiro-Wilk W statistic is reported in Tables 1 and 2 together with the results of tests of location or central tendency: the mean, median and mode values. In the case of a disagreement between the Shapiro-Wild and the Kolmogorov significance results, the former were accepted. The Kolmogorov-Smirnov (KS) test of the D statistic was also applied. The KS statistics are reported in table 3 and 4 as the „KS D statistic“ together with the reported results of the tests of statistical dispersion such as standard deviation, variance and interquartile range or range. The SAS procedures also offered the Cramer-von Mises and Anderson-Darling tests. If the KS test results conflicted with these latter tests, then this

discrepancy identified and reported. However, in none of the tests was such a discrepancy evident. SAS was used for the descriptive statistics reporting that are shown in tables 1 and 2, and the P-P and Q-Q plots were also generated using SAS. All the tested variables showed variation from the P-P and the Q-Q plot lines to some extent, except for the variables work life balance for marketing, work life balance for finance, financial interest orientation and job interest orientation. On the basis of the univariate testing, relatively few of the items were found to have an underlying distribution approaching acceptable levels of normality. On the basis of this evidence, the non parametric alternative tests were used.

Appropriate measures were used for analyzing nominal data such as the choice of a specific major subject (Stevens, 1946). Kendall's Tau B measures were used for this purpose. Results of the bivariate analysis tests are reported in Table 6.

On the basis of the univariate evidence that indicates that many of the variables were not normal in their underlying distribution, parametric tests were excluded. The parametric t-test was therefore replaced in the process by the Mann Whitney U-test. Hypotheses A through J were tested using the Mann Whitney test. Hypothesis K is tested with recourse to Kendall Tau.

### **Measuring instruments**

Likert-type scales were developed to test perceptions. These scales were taken to represent interval data, as scale construction included the criteria of „strongly agree“, „agree“, „neither agree nor disagree“, „disagree“ and „disagree strongly“. In this manner, an attempt was made to scale differences with equal increments (Stevens, 1946). Perceptions of personal aptitudes and university programme aspects were tested using a ten point semantic differential scale ranging from „very poor“ to „excellent“.

Responses associated with the twelve core interest anchor items were subjected to a factor analysis using principle components analysis. This was done to check if these factors loaded onto their three dimensions: a financial remuneration interest or service orientation; a primary interest in the job itself or job interest orientation, and a community service or service interest orientation. The assumptions underlying exploratory factor analysis were checked. Scatterplots were run to

check the assumption of linearity. However, it was not possible to ascertain a clear linear pattern in many of the plots. Pearson correlations revealed the presence of inter-item correlations between these items, with inter-item correlations  $>.5$ . The anti-image correlation matrix diagonals reported values of well over  $.5$ . In terms of further tests of measures of sampling adequacy (MSA), the Kaiser-Meyer-Olkin (KMO) value was found to be  $.792$  which was greater than the required level of  $.5$ , and Bartlett's test of sphericity was found to return an approximate Chi-Square value of  $364.191$  at  $66$  degrees of freedom. The Bartlett's test statistic was found to be significant. On the basis of these tests, sampling adequacy was accepted. A varimax rotation with Kaiser Normalisation was used. These tests were performed using SPSS. The factor solution for the SPSS analysis is shown in table. The ideal typical ratio of  $20:1$  for cases per item was not met as  $12$  items were used with  $130$  cases. The ratio of cases to items was  $10.83:1$ . However, this ratio does exceed the reasonable cut-off level for exploratory factor analysis of about  $5:1$ .

The rotated three factor solution is shown in Table 4. The scale items loaded in a manner consistent with the original conceptualizations and the interpreted simple structure achieved in the factor loadings validates the underlying dimensions of the measuring instrument.

For hypotheses A through J the job prospects, earnings potential, career prospects, non-salary benefits, work life benefits, core interest anchors, personal aptitudes and qualification components were tested for differences by group. Groups comprised the students with each major versus those without the major.

### **The sample**

Relatively more students were female ( $57$  percent). IS, Marketing, Finance, Management, IR, HRM, and economics as major subjects were taken by  $15.39$ ;  $29$ ;  $37.7$ ;  $46.5$ ;  $11.6$ ;  $25.6$ ; and  $20.16$  percent of the sample, respectively. Students typically were registered for between one and three majors. This was the range reported. Three majors were reported by  $10.4$  percent of the students. Relatively older students are found to choose HRM and Psychology as major subjects and relatively younger students are found to choose Economics as a major subject. Certain commonalities were found with regard to subject choice combinations. IS students and Economics students were found to be less likely to combine majors, as was the case with

Marketing and Finance; Marketing and HRM; Marketing and Economics; Finance and Management; Finance and HRM; and Management and Psychology. Positively matched subject choices included Marketing and Management; Finance and Economics and HRM and Psychology.

**TABLE 2**  
**Perceptions of Career Work Life Balance, Interest Orientations, Aptitudes and Academic programme provision: Univariate Analysis Measures of Central Tendency and normality**

<i>Variables</i>	<i>Mean</i>	<i>Median</i>	<i>Mode</i>	<i>Skewness</i>	<i>Kurtosis</i>	<i>Shapiro-Wilk W</i>	<i>significance</i>
<i>Work Life Balance (WLB)</i>							
<i>WLB Information Systems</i>	5.45	6	7	-.251	-.540		Yes
<i>WLB Marketing</i>	6.14	6	6	-.216	-.112		No
<i>WLB Finance</i>	4.85	5	5	.089	-.133		No
<i>WLB Management</i>	5.70	5	6	-.244	.361		Yes
<i>WLB Human Resource Management</i>	6.28	6	6	-.054	.398		Yes
<i>WLB Industrial Relations</i>	5.54	6	6	.200	.933		Yes
<i>Job related interest orientation</i>	13.75	14	14	.291	.207		No
<i>Financial interest orientation</i>	11.6	12	11	.193	-.173	No	
<i>Community interest orientation</i>	15.27	16	16	-.463	-.033		Yes
<i>Aptitude: Numerical</i>	7.18	8	8	-.713	.117	Yes	
<i>Aptitude: Verbal</i>	7.84	8	8	-.848	1.13		Yes
<i>Aptitude: Spacial</i>	5.77	6	6	-.306	-.236		Yes
<i>Curriculum content Management</i>	7.28	7	7	-.109	-.463		Yes
<i>Curriculum content HRM</i>	6.89	7	8	-.366	.130		Yes
<i>Academic status management</i>	7.40	8	8	.038	-.895	Yes	
<i>Academic status HRM</i>	6.93	7	6	.066	-.430		Yes
<i>Status School</i>	8.17	8	8	-.618	.046		Yes
<i>Status University</i>	8.30	9	10	-.762	-.040		Yes

*Note: mean median and mode are tested using SAS. Skewness, kurtosis and Shapiro Wilk measures are SPSS output.*

**TABLE 3**  
**Perceptions of Career Job Prospects, Earnings Potential, Career Prospects and Non Salary Benefits: Univariate Measures of Statistical Dispersion and Normality**

<i>Variables</i>	<i>standard deviation</i>	<i>Variance</i>	<i>Interquartile Range</i>	<i>KS D statistic</i>	<i>Q-Q and P-P plot</i>	
<i>Age</i>		5.103	26.04	3	.279*	Yes
<i>Job prospects (JP)</i>						
<i>JP: Information Systems</i>		2.45	5.99	3	.149*	Yes
<i>JP: Marketing</i>		1.86	3.47	3	.135*	Yes
<i>JP: Finance</i>		2.09	4.37	2	.186*	Yes
<i>JP :Management</i>		2.07	4.28	3	.139*	Yes
<i>JP :Human Resources Management</i>		2.00	4.02	3	.124*	Yes
<i>JP: Industrial Relations</i>		1.95	3.79	3	.159*	Yes
<i>Earnings potential (EP)</i>						
<i>EP: Information Systems</i>		2.19	4.81	3	.139*	Yes
<i>EP: Marketing</i>		1.89	3.56	2	.137*	Yes
<i>EP :Finance</i>		1.95	3.79	2	.232*	Yes
<i>EP: Management</i>		1.90	3.60	2	.132*	Yes
<i>EP :Human Resources Management</i>		1.88	3.52	2	.156*	Yes
<i>EP :Information Systems</i>		2.02	4.09	2	.178*	Yes
<i>Career Prospects (CP)</i>						
<i>CP: Information Systems</i>		2.61	6.80	3	.161*	Yes
<i>CP: Marketing</i>		2.20	4.84	2	.148*	Yes
<i>CP: Finance</i>		2.21	4.86	2	.168*	Yes
<i>CP: Management</i>		1.87	3.48	2	.143*	Yes
<i>CP: Human Resources Management</i>		2.00	4.01	3	.144*	Yes
<i>CP :Industrial Relations</i>		2.19	4.78	3	.154*	Yes
<i>Non salary benefits (NSB)</i>						
<i>NSB: Information Systems</i>		2.43	5.92	3	.138*	Yes
<i>NSB; Marketing</i>		2.14	4.58	2	.195*	Yes
<i>NSB: Finance</i>		2.15	4.61	3	.141*	Yes
<i>NSB: Management</i>		1.97	3.87	2	.120*	Yes
<i>NSB: Human Resources Management</i>		1.95	3.80	3	.126*	Yes

*Significance p<0.05\* Measures of SAS output*



**TABLE 4**  
**Factor Analysis Rotated Component Matrix of the**  
**Career Interest Orientations Measuring**  
**instrument**

	<i>Component</i>		
	1	2	3
<i>Interest: job itself</i>	.209	-.264	<b>.364</b>
<i>Interest: salary</i>	-.063	<b>.652</b>	.182
<i>Interest: societal contribution</i>	<b>.817</b>	-.154	.138
<i>Interest: good money</i>	-.225	<b>.599</b>	-.040
<i>Interest: different people's lives</i>	<b>.715</b>	-.145	.316
<i>Interest: interesting job</i>	.285	.164	<b>.534</b>
<i>Satisfaction from job itself</i>	.056	-.197	<b>.770</b>
<i>Kind of work most important</i>	.097	.271	<b>.750</b>
<i>Success defined by salary</i>	.003	<b>.818</b>	-.114
<i>Education to benefit society</i>	<b>.812</b>	-.058	-.044
<i>Happiness is good salary</i>	-.068	<b>.752</b>	.014
<i>Enhance the community</i>	<b>.761</b>	-.072	.268

**TABLE 5**  
**Perceptions of Career Work Life Balance, Interests Anchors, Aptitudes and Academic**  
**Programme Provision: Univariate Measures of Statistical Dispersion and Normality**

<i>Variables</i>	<i>Standard deviation</i>	<i>Variance</i>	<i>Range</i>	<i>KS D statistic</i>	<i>Q-Q and P-P plot deviation</i>
<i>Work Life Balance (WLB)</i>					
<i>WLB: Information Systems</i>	2.31	5.32	10	.134**	Yes
<i>WLB: Marketing</i>	2.31	5.36	10	.132**	Yes
<i>WLB: Finance</i>	2.02	4.09	10	.134**	No
<i>WLB :Management</i>	1.97	3.89	9	.148***	No
<i>WLB :Human Resources Management</i>	2.11	4.45	10	.146***	Yes
<i>WLB: Industrial Relations</i>	1.91	3.66	10	.159***	Yes
<i>Job related interest orientation</i>	2.68	7.18	20	.150***	No
<i>Financial interest orientation</i>	2.91	8.44	19	.090	No
<i>Community interest orientation</i>	2.96	8.76	20	.104*	No
<i>Aptitude: Numerical</i>	1.82	3.31	8	.174***	Yes
<i>Aptitude :Verbal</i>	1.80	3.24	9	.146***	Yes
<i>Aptitude: Spacial</i>	1.99	3.96	9	.184***	No
<i>Curriculum content Management</i>	1.58	2.50	7	.164**	No
<i>Curriculum content:HRM</i>	1.96	3.85	9	.129**	Yes
<i>Status :Management qualification.</i>	1.66	2.74	8	.136**	No
<i>Status: HRM qualification</i>	1.71	2.91	8	.162***	Yes
<i>Status: School</i>	1.47	2.17	6	.174***	Yes
<i>Status University</i>	1.56	2.44	7	.195***	Yes

*Significance p<0.05\*; p<0.01\*\*; p<0.001\*\*\* Standard deviation, variance, range, Q-Q and P-P plots are SAS output. KS statistics are SPSS output.*

**TABLE 6**  
**Kendall's Tau Correlation Coefficients : Associations Between Academic Majors and Biographical Variables, Perceived Job and Career Prospects, Earning Potential, Non-Salary Benefits, Work Life Balance, Personal Values, Aptitudes, Qualification Content and School status.**

<i>Variables</i>	<i>Majors:</i>	<i>IS</i>	<i>Marketing</i>	<i>Finance</i>	<i>Management</i>	<i>I/R</i>	<i>HRM</i>	<i>Economics</i>
<i>Psychology</i>								
<i>Year of study</i>				-.440***	.382***			
<i>Age</i>				-.221**			.254**	-.187*
	.210**							
<i>3 Majors</i>			.196*		.267**			
<i>Job Prospects (JP)</i>								
<i>JP:Information Systems</i>		.256**						
<i>JP: Marketing</i>			.292***					
<i>JP Finance</i>				.205*		.172*		
<i>JP Management</i>				-.156*				
<i>JP HRM</i>							.341***	
	.215**							
<i>JP IR</i>			-.190*					
<i>Earnings Potential (EP)</i>								
<i>EP :Information Systems</i>		.172*						
<i>EP: Marketing</i>			.284***					-.193*
<i>EP: HRM</i>							.233**	-.191*
	.222**							
<i>Career Prospects (CP)</i>								
<i>CP: Information Systems</i>		.285***						
<i>CP Marketing</i>			.318***	-.189*				-.194*
<i>CP Finance</i>								
<i>CP :Management</i>					.199*			
<i>CP: HRM</i>							.233**	
	.189*							
<i>NonSalaryBenefits (NSB)</i>								
<i>NSB:Information Systems</i>		.260**						
<i>NSB: Marketing</i>		.183*	.206*					-.177*
<i>NSB: Finance</i>						-.170*		
<i>NSB HRM</i>						.172*		
<i>Work Life Balance (WLB)</i>								
<i>WLB: Information Systems</i>								
<i>WLB :Marketing</i>							-.184*	
<i>Interest in job itself</i>		.222**						
<i>Interest in salary</i>		-.130^						
<i>Interest in contribution society</i>							.151*	.147^
<i>Aptitude :Numerical</i>			-.155*	.260**				.149^
<i>Aptitude :Verbal</i>					-.139^		.190*	
<i>HRM curriculum</i>					-.283**		.332***	-.262**
	.298**							
<i>HRM qualification status</i>					.259**		.308**	-.160^
	.193*		-.158*					

Notes: significance  $p < 0.10^{\wedge}$ ;  $p < 0.05^*$ ;  $p < 0.01^{**}$ ;  $p < 0.001^{***}$

## DISCUSSION OF THE FINDINGS IN RELATION TO THE HYPOTHESES

$H^{0a}$ : There is no relationship between *perceptions of job prospects* and *major academic field subject choice*.

According to the Mann-Whitney tests (Table 7) a general correspondence is found between perceptions of job prospects and the choice of each major subject except Management and Insurance and Risk Management. The latter were, however, found to indicate higher perceptions of job prospects of Finance. Economics as a major subject was included in certain of the analyses in order to gain further insight into extant relationships. (Economics is the seventh division of the School of Economic and Business Sciences). Marketing students perceived Insurance and Risk to have lower levels of job prospects as a career. Students with Economics as a major were found to perceive IS and HRM to offer less in terms of job prospects. On account of the significant associations found between perceptions of job prospects and major field subject choices, the null hypothesis is rejected. The alternative hypothesis is therefore accepted. To the extent that perceptions have not changed over time since choosing the subject majors, the statistically significant associations between perceptions of job prospects and major subject choices appear to support Gottfredson's (1981) theory. All business science major students except Management exhibit a statistically significant association between perceptions of job prospects in their field and the choice of a major subject associated with such a field. The exception of Management as a major career related subject choice might be explained by the fact that Management is a more generic skills subject that does not specifically qualify an individual for a specific professional role to the extent associated with other subject choices.

TABLE 7

**Mann-Whitney U test statistic: Associations between academic majors perceived job and career prospects, earning potential, non- salary benefits, work life balance, personal values, aptitudes, qualification content and School status.**

<i>Variables Majors:</i>	<i>IS</i>	<i>Marketing</i>	<i>Finance</i>	<i>Management</i>	<i>HRM</i>	<i>IR</i>	<i>Economics</i>
<i>Psychology</i>							
<i>Job Prospects(JP)</i>							
<i>JP: Information Systems</i>	1466.500**						
<i>JP; Marketing</i>		2272.000***					
<i>JP:Finance</i>			2332.500*				1094.500*
<i>JP: Management</i>			-1456.500*				
<i>JP: HRM</i>					2307.000***		
<i>945.000**</i>							
<i>JP :Industrial Relations</i>		-1165.500*					
<i>Earnings Potential(EP)</i>							
<i>EP: Information Systems</i>	1355.000*						
<i>EP: Marketing</i>		2309.500***					-861.500*
<i>EP: HRM</i>					2017.000**		- 878.500*
<i>949.000**</i>							
<i>Career Prospects( CP)</i>							
<i>CP: Information Systems</i>	1551.500***						
<i>CP; Marketing</i>		2335.000***	-1347.000*				-842.000*
<i>CP: Management</i>				2411.000*			
<i>CP :HRM</i>					2014.500**		
<i>761.000*</i>							
<i>Non Salary Benefits(NSB)</i>							
<i>NSB: Information Systems</i>	1441.500**						
<i>NSB; Marketing</i>	1184.500*	2030.500*					- 860.500*
<i>NSB; Finance</i>					-1050.000*		
<i>NSB: HRM</i>					1860.000*		
<i>WLB; Marketing</i>					-1039.000*		
<i>Job interest orientation</i>	1548.500**						
<i>Community orientation</i>					1950.000*		
<i>Numerical Aptitude</i>		-1338.500*	2598.500**				
<i>Verbal Aptitude</i>					2003.000*		
<i>Curriculum HRM</i>				-714.000**	1537.500***		-399.000**
<i>762.000**</i>							
<i>Status HRM qualification</i>				-716.000**	1406.500**		
<i>588.500*</i>							
<i>School status</i>	-764.000*						

Notes: significance  $p < 0.05$ \*;  $p < 0.01$ \*\*;  $p < 0.001$ \*\*\*

**TABLE 8**  
**Kendall's Tau correlations: Associations between Career Interest Orientation Anchors and job prospects, earning potential and qualification status**

<i>Career Interest Orientation: Perceptions</i>	<i>Financial</i>	<i>Job itself</i>	<i>Community/Service</i>
<i>Job Prospects (JP)</i>			
<i>JP: Information Systems</i>		.158*	.164*
<i>Earnings Potential (EP)</i>			
<i>EP ;Information Systems</i>		.175*	
<i>EP:HRM</i>		.212*	
<i>EP; Industrial Relations</i>	-.140*		
<i>Career prospect(CP)</i>			
<i>CP :HRM</i>		.244***	.142*
<i>CP ;Information Systems</i>	-.151*	.200**	
<i>CP; Industrial Relations</i>	-.151*		
<i>Interest in job itself</i>			.310***
<i>Interest in financials</i>			.132*
<i>HRM qualification status</i>			.190*

Notes: significance  $p < 0.10^{\wedge}$ ;  $p < 0.05^*$ ;  $p < 0.01^{**}$ ;  $p < 0.001^{***}$

$H^{0b}$ : There is no relationship between perceptions of *future earnings potential* and *major academic field subject choice*.

According to the tests of the Mann-Whitney statistics, individuals with a major subject in Economics perceive IS, Marketing and HRM to be relatively lower in earnings potential. IS, Marketing and HRM majors are associated with perceptions that their career streams have relatively high earnings potential. However, Finance, Management and IR majors are not significantly associated with perceptions of higher relative earnings potential in their career fields. Psychology majors were also found to have perceptions of higher earnings potential for HRM as a career stream. The null hypothesis is thus rejected. This is taken to give general support to Gottfredson's (1981) hypothesis that the process of confronting career perceptions leads to an adjustment in career choices.

$H^{0c}$ : There is no difference between perceptions of *career prospects* and *major academic field subject choice*.

Career prospects typically relate to a broader range of work opportunities than job prospects. It is expected that the core career anchor of an individual will emerge more strongly over time (Schein, 1996). Certain major subjects might be perceived to provide more long term opportunities for certain students. According to the Mann-Whitney test results (Table 7) the IS,

Marketing, Management, and HRM majors each perceived their career prospects to be relatively high. Thus the null hypothesis is rejected.

Finance and Insurance and Risk majors did not significantly perceive higher or lower career prospects to be associated with their choice of career. Individuals with Economics as a major subject are however found to perceive Marketing to have relatively lower career prospects. Gottfredson's (1981) hypothesis seems to be supported in these findings as the majority of subject majors are significantly associated with perceptions of career prospects in each field.

$H^{od}$ : There is no significant difference between perceptions of *non salary work benefits* and *major academic field subject choice*.

Individuals with IS, Marketing and HRM are found to have perceptions of high non-salary benefits associated with their career streams. However, Finance, Management and Insurance and Risk majors have no significant association in this regard. Of the non business science students, Economics majors perceived Marketing to have relatively lower levels of non-salary benefits. On the basis of these significant associations, the null hypothesis is rejected. These significant associations are taken to give general support Gottfredson's (1981) hypothesis of dynamic career adjustment.

$H^{oe}$ : There is no significant difference between *perceptions of work-life balance* and *major academic field subject choice*.

Students with a major in HRM are found to perceive lower levels of work life balance to be associated with a career in Marketing. No other associations are found to be significant. Due to this significant association, the null hypothesis is rejected in terms of the „minimum criterion“. However, on this dimension there appears to be little evidence to support the argument that students adjust their goals and choose subject majors on the basis of work-life balance in line with Gottfredson's (1981) hypothesis .

$H^{of}$ : There is no significant difference between *financial orientation* and *major academic field subject choice*.

No association was found between financial orientation and choice of major subject. This was surprising, as extrinsic (financial) motivation was expected to influence career choice. The null hypothesis is therefore supported and alternative hypothesis rejected. It is difficult to argue that financial reward is not a reasonably universal goal with regard to career choice but a security /stability aspect to students studying business science majors may be evident here since although financial aspects may not predominate the current economic situation with high levels of unemployment may engender a premium on security and stability of employment rather than pure financial reward. Also and against this backdrop, the absence of a significant association in this sample might suggest that such a predominant financial goal might have been subject to compromise in the face of realistic perceptions of career streams at a given point in time. This is taken to support Gottfredson's (1981) perspective. If Swanson and Tokar (1991) were correct, and students either drop out or simply regard perceptions of career barriers as a challenge and do not modify their goals or career choices accordingly, then career related perceptions would be expected to have less of an influence on nascent career choice. Schein's (1996) argument that an individual's goals, underpinned by an individual's core career anchor will become the strongest influence upon career decisions over time may also be evident here as many of the recent student body look to their degree qualification as a ticket from their impoverished socio-economic backgrounds.

*H<sup>0g</sup>*:        There is no significant difference between *job related interest orientation* and *major academic field subject choice*.

The only significant association between job related interest and the choice of a major subject according to the Mann-Whitney test results is found to be with IS. This might indicate that an intrinsic aspect of IS as a career or as a subject may be a fundamental driver of this particular career choice. On the basis of the „minimum criterion“, the null hypothesis is rejected and the alternative hypothesis accepted. This might indicate that an alignment exists between IS major subject choice and a job interest anchor. The absence of significance between a interest related career anchor and the other major subjects might suggest that major subject choices are not primarily being made on the basis of job interest. This might be taken to support Gottfredson's (1981) hypothesis, as core interests orientations might be considered more proximal to the

individual. These findings seem to indicate that perceptions of real career related differences are more strongly associated with academic major subject choice than with job interest per se.

$H^{oh}$ : There is no significant difference between a *community interest orientation* on and *major academic field subject choice*.

According to the Mann-Whitney findings, community interest orientation is found to be associated with HRM as a major subject. The null hypothesis is thus rejected. This result appears to support Schein's (1996) career anchor conceptualization of sense of service or dedication to a cause. Thus although most of the evidence appears to support Gottfredson's (1981) notion of gradual adjustment and negotiation of appropriate careers over time, with regard the HRM majors there seems to be an underlying career anchor guiding individuals to select this specialisation which is absent from the others. This may suggest that among this student body at least a security and stability anchor dominates, although this is still in the process of unwinding in the manner suggested by Gottfredson (1981) in the nascent career indicated by the major subjects selected. However, for HRM majors this aspect is overridden by a powerful underlying sense of service/dedication to a cause career anchor.

$H^{oi}$ : There is no significant difference between perceptions of *aptitude endowments* and *major academic field subject choice*.

The Mann-Whitney tests indicate that individuals with a choice of Marketing as a major subject are associated with relatively lower perceptions of their numerical aptitude. However, the reverse is found to hold for Finance and Economics. Self-perceptions of higher levels of verbal aptitude are found to be significantly and positively associated with HRM as a major subject. These results are unsurprising given the more quantitative focus of the Finance and Economics curricula versus the focus verbal skills associated with the HRM curriculum. Self-reports of spacial aptitude were not found to be significantly associated with any major subject choice. Gottfredson's (1991) argument appears to be supported by these findings as career choices appear to be adjusted on the basis of self assessments of the fit between aptitudes associated with a specific career and personal aptitudes.



$H^{0j}$ : There is no significant difference between perceptions of *the relative merit of the academic programme* and *major academic field subject choice*.

Mann-Whitney tests reveal students that reported choosing HRM as a major were associated with more positive perceptions of the status of the university's HRM qualification and its curriculum content. Management majors, however, perceived just the opposite. Economics majors perceived the HRM curriculum in a relatively more negative manner, yet Psychology majors perceived this curriculum in a positive manner. IS majors had lower perceptions of the School, which includes the six business science divisions together with Economics. Thus the null hypothesis is rejected.

$H^{0k}$ : There is no significant difference between *career perceptions* and *career job interests*.

This hypothesis is associated with the third research question: *what career anchor perceptions are primarily associated with the interest of the job itself?* Individuals with a financial job interest are found to have lower perceptions of the earning potential of IR and the career potential of IS and IR. A Financial job interest is, however, not found to be associated with any particular aptitude, or with any positive perception of the career aspects of any of the subject majors. An interest associated with the job itself is found to be positively associated with perceptions of higher job prospects in IS, of higher earnings potential in HRM, and of higher career prospects of HRM. A community service orientation was found to be associated with perceptions of higher job prospects and earnings potential of IS as a career, and of higher career prospects of HRM and IS. A community service orientation was found to be positively associated with an interest in the job itself and negatively associated with a financial interest orientation. The significant associations that are found tend to cluster in a few areas. The central concern of individuals with a financial job interest seems to be framed negatively with regard to the earnings prospects and career prospects of other fields. This might reflect some aspect of associations between career perceptions and the value orientation (Schwartz, 1992) that underlies such a career interest anchor. Individuals with a job interest orientation are found to frame associations positively, and primarily focus on IS and HRM. This might indicate a values congruency between these subjects and the values of job interest as a career anchor. Certainly the earlier analysis suggested that with regard to HRM service/dedication to a cause seems to be an important aspect of HRM major

selection by students. However, in general terms Gottfredson's (1981) thesis seems to be supported by these findings. At this stage students' perceptions of real aspects of careers, such as career prospects and earnings potential, rather than in an underlying interest in the job itself of specific careers in business science.

### **Recommendations for Further Research and Managerial Implications**

The second research question addressed in this study was: *what is the typology of self perceptions most strongly related to each specific potential career choice?* The typologies are drawn from the hypothesis testing processes reported and discussed above and are outlined in a summary in this section. Managerial implications and recommendations for further research are derived from these typologies in this section. The specific typologies associated with each study stream are briefly summarized as follows.

#### *Information systems*

It was found that IS majors were associated with positive perceptions of job prospects, earnings potential, career prospects, non salary benefits of IS as a career. These students were associated with a job itself interest. They perceived Marketing to have relatively better non salary benefits than other business sciences career streams. Effective careers have been found to be associated with extensive career planning Gould, (1979), and, in contrast to many of the other academic majors, IS majors seem to display a comprehensive set of perceptions about their career stream. This might reflect an awareness of their careers that is associated with a degree of career planning. The lack of significance of job interest for any of the other business science majors might raise concerns, as extensive career planning and information searches might offer students specific careers that are more aligned with their interest in a specific career. This finding seems to support the notion that, with the exception of HRM, many business science major students choose careers (at this stage) on the basis of job related perceptions and not on the basis of their interest in the job itself. Measures of career effectiveness such as career performance, career involvement, adaptability and identity resolution have been found to be positively associated with self reports of higher levels of career planning (Gould, 1979). Thus, a core recommendation made on the basis of the findings of this research is that career planning is further enabled for business

sciences students. If a lack of career planning is at the root of these findings, the costs associated with lower career satisfaction and effectiveness (Gould, 1979) might be borne by individuals that choose careers based on their perceptions of careers at the expense of core job interests. It is suggested that information and career planning initiatives are intensified at University level and before in the educational process. Since as Super (1980:287) points out: “the more a person’s abilities and interests find ready and temporally compatible outlets in the full range of the activities engaged in, the more successful and satisfied that person will be”.

To the extent that perceptions of IS careers by IS majors are associated with a job interest, it might suggest an alignment with Schein’s (1996) technical-functional competence anchor. Individuals anchored in Technical/Functional Competence (TFC) are expected to find themselves aligned with a working world in which knowledge workers with specialised technical or functional skills and competences are the cornerstone to organisational performance (Schein, 1996). Further research is suggested into the more specific relationships between more detailed and more comprehensive measures of job itself interest.

### *Marketing*

Marketing majors also displayed positive perceptions of the job prospects, earning potential, career prospects and non salary benefits of marketing careers. However, these students reflected negative perceptions of the job prospects of IR as a career. Marketing students were found to have relatively lower perceptions of their numerical aptitudes. The association between selecting Marketing as a major and the recognition by such students that they do not have numerical aptitudes suggests, in line with Gottfredson’s (1981 ) theory, a process of adjustment and negotiation in selecting a career.

### *Finance*

Finance majors reflected positive perceptions of the job prospects associated with career choices, and of their numerical aptitude. These students displayed negative perceptions of the job prospects of Management as a career, and of Marketing in terms of career prospects. Since the choice of Finance as a subject major is dominated by a perception of job prospects, and not by any significant relationship associated with job interest, it may suggest that this career attracts

individuals anchored in Schein's (1996) security/stability career anchor type, especially given the harsh unemployment situation currently faced by the South African economy.

### *Management*

Management majors revealed perceptions of higher career prospects associated with Management as a career. These students reflected negative perceptions of the curriculum and the status of the HRM qualification. Further research is suggested into what differences underlie these perceptions, as management and HRM share aspects relating to academic fields. Another interesting finding is that only the more long term career prospects item is associated with the choice of this major subject. This might reflect the less specialised and more generic nature of the perceived value offered by this career stream in the business context. The curriculum, to the extent that it includes entrepreneurship and general management skills might be aligned with individuals with a specific general managerial competence or an entrepreneurial creativity career anchor, according to Schein's (1996) classification. It is suggested that career information provided to learners and students stress the specific skills offered by Management subjects that support the particular career anchors of technical functional competence and/or entrepreneurial.

### *Human Resource Management*

HRM majors were found to perceive higher levels of job prospects, earning potential, career prospects, and non salary benefits to be associated with HRM as a career. HRM students were found to be associated with a service or community interest career anchor, and with higher levels of verbal aptitude. These students were found to perceive the non salary benefits of Finance and the work life balance of Marketing negatively. The community service career anchor association with HRM majors corresponds to Schein's (1996) service or dedication to a cause career anchor. To the extent that this major choice is associated with perceptions of verbal aptitudes, it may represent a core competency associated with this field, and be made to comprise career information along the entire career information dissemination chain.

### *Insurance and Risk Management*

IR majors were found to perceive the job prospects of a career in Finance positively.

In terms of all the business science major subjects, it is recommended on the basis of these findings that more emphasis be placed upon individual's job interest in terms of the career support made available to learners and students.

### **Conclusions**

The first research question addressed in this study was what is the relationship between career related self perceptions and the choice of a specific career related major subject? On the basis of findings relating to the hypotheses, it is tentatively argued that consonance in scores of perceptions of real aspects of careers by major across the board support Gottfredson's (1981) hypothesis of negotiated career anchors. The almost total absence of dissonance between perceived job interest and aptitudes with major subject chosen contests Swanson and Tokar's (1991) notion of choosing a career as a „challenge“ rather than as a dynamic and negotiated adjustment over time.

Finance interest anchors were found to frame career prospects of other major subjects negatively. Job interest and service were found to frame perceptions positively, and both tended to cluster around perceptions of IS and HRM majors.

The findings suggest that self perceptions of aptitudes and job interest are broadly consonant with perceptions of job prospects, earning potential, career prospects, non salary work benefits, and work life balance perceptions of specific careers underpinned by particular academic major choices. Furthermore, it is also argued that perceptions of aptitudes and interest career anchors are consonant with major subject choice. With perceptions of aptitude perhaps being a particularly important variable. The evidence seems to support Gottfredson's (1981) hypothesis, that self-perceptions causes adjustments in the selection of particular careers. Schein's (1996) evolutionary perspective of a process of negotiation and discovery of core career anchors is therefore vicariously supported by the findings.

In very general terms, the findings appear to suggest that students select majors that underpin particular business careers on the basis of perceived aptitudes (numerical, non-numerical and verbal), perceived job, earning and career prospects and, more tentatively, the career anchors of security/ stability ( Finance, Economics, Insurance and Risk Management, Marketing), technical /functional competence (IS and Management), entrepreneurial creativity (Management) and service/dedication to a cause (HRM).

Students selecting Finance, Economics and Insurance and Risk Management appear to have security and stability anchors possibly arising from their socio –economic circumstances and the prevailing high unemployment rate in South Africa. These potentially financially rewarding specialisations are chosen by students with the necessary aptitudes to succeed to find a way out of the precarious socio -economic conditions many of them face. This is an overriding goal that may subordinate personal interest in the job itself. Those with lesser numerical and/or verbal aptitudes perhaps see their career objectives more in terms of interest in the job itself (IS) and service /dedication to a cause (HRM).

These tentative findings suggest that further research could fruitfully be applied to an analysis of the mechanisms of nascent career choice by University students selecting particular business science majors (and indeed other specialisations in other Faculties). Such research may aid in chaperoning students to select majors for study in line with personal interests and aptitudes, for the betterment of career satisfaction, employment stability and productivity.

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# **IMPLEMENTATION OF STRESS MANAGEMENT PROGRAMMES IN THE WORKPLACE: AN EMPIRICAL INVESTIGATION**

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*“This material is based upon work supported financially by the National Research Foundation”.*

*“Any opinion, findings and conclusions or recommendations expressed in this material are those of the authors and therefore the NRF does not accept any liability thereto.”*

# **IMPLEMENTATION OF STRESS MANAGEMENT PROGRAMMES IN THE WORKPLACE: AN EMPIRICAL INVESTIGATION**

## **ABSTRACT**

The purpose of this paper is to investigate whether or not selected organisations in the Nelson Mandela Metropole implement stress management programmes in order to minimise stress factors within the workplace. To provide a theoretical framework for this study, a comprehensive literature study was undertaken. Primary data was collected by means of empirical research using the survey method. A self-administered questionnaire was distributed to 110 organisations in the Nelson Mandela Metropole. Four null-hypotheses, investigating relationships between the dependent and independent variables are tested by means of analysis of variance. The results showed significant differences between the perceptions regarding the implementation of stress management programmes and some of the independent variables (classification data). Some general and practical guidelines are provided for assisting organisations in implementing stress management programmes in the workplace.

*“Employee stress has increasingly become a concern for many organisations. Stress is an unavoidable consequence of life, and therefore an unavoidable consequence of organisations. Organisations provide a major portion of the total stress experienced by a person as a result of the amount of time spent on the job, the demands for performance, and the interaction with others in the workplace. Although it is not possible to eliminate stress entirely, people can learn to manage it. Many organisations have adopted stress management training programs to try and reduce the stress levels of their workforce.”*  
*(Richardson & Rothstein, 2008:69)*

## **INTRODUCTION**

The fast, ever-evolving environment has transformed organisations which place unprecedented demands on employees in the workplace. This had a variety of negative effects on employees and their health (Swanepoel, Erasmus, van Wyk & Schenk, 2003:557). Stress within an organisation originate from various sources such as: working long hours, the working environment, privacy and space, role ambiguity, role conflict, conflict of values, conflicts between home and work, relationships at work, the level of activity and stimulation, the skills

required for the job, training and development, expectations and the organisational culture, to mention but a few (Hartley, 2003:35-49). In tough economic times, organisations are minimising expenses, employees are frequently being retrenched and consequently unemployment levels rise significantly. Due to the changes within organisations and their infrastructure, job descriptions are constantly being altered with resulting employee diffusion (Schreuder & Theron, 2002:190). As a consequence, additional attention has to be given to employees' health and stress levels. Organisational performance and wellbeing are dependent upon the performance of individual employees and, therefore, an individualistic health focus should be followed.

As a starting point, stress has to be recognized within an organisation. If stress and stress factors are not identified, stress management programmes cannot be established (Thomson, 2002:167). Organisations are often sceptical with regard to the implementation of stress management programmes, and it requires an overall positive attitude towards these programmes by the organisation itself, its managers and employees in order to be successful. Fisher, Katz, Miller and Thatcher (2003:139) identified three categories of stress management interventions, namely primary, secondary and tertiary. In maintaining an effective workforce, so as to form a healthy organisational climate with growth potential and sustainability, the employees need to be subjected to preventative stress management programmes (Quick, Quick, Nelson & Hurrell, 1998: 277). A variety of strategies can be used on both individual and organisational level in order to minimize stress levels. Such strategies include, among other, time management and planning, lifestyle management, coping strategies, supportive organisational practices, job design, providing emotional support to employees, sponsoring a wellness and fitness programme, giving on-site massages and providing the opportunity to take nap breaks on the job (Schultz, Bagraim, Potgieter, Viedge & Werner, 2003:217). Support provided by the organisation for managing and coping with individual stress should seek to minimise or eliminate those factors that are likely stress-inducing in the working environment. (Rosenfeld & Wilson, 1999:72).

## PROBLEM STATEMENT

Organisations that modify and transform with environmental trends, challenge their employees in a variety of ways and on numerous levels. In order to stay competitive, organisations do not tend to have stress-free working environments (Daft, 2008:578). Job stress, caused by various factors within the working environment is a reality of the workplace of today (Carrell, Elbert & Hatfield, 1995:591). High levels of stress can lead to low productivity, increased absenteeism, lower turnover, and an assortment of other employee-related problems including those associated with alcoholism, drug abuse, hypertension and a variety of cardiovascular problems. (Carrell *et al.*, 1995:589) Organisations have the responsibility of maintaining the well-being of its employees and other stakeholders of the organisation. Therefore, a cost-benefit analysis of preventive stress management has to be considered against the return on investments in the long run (Quick *et al.*, 1998:297-298.) Stress management training programmes, counselling, and employee assistance programmes (EAPs) are generally evaluated as being less cost intensive and more straightforward to implement than the alternative of long-term restructuring of work practises. (Fisher *et al.*, 2003:140). Prior to implementing costly stress management programmes to minimise stressors managers should consider physical conditions of the workplace and management styles of the organisation. Managers can utilise straightforward and helpful resources in order to strategically minimize stressors, prior to implementing cost intensive stress management programmes (Hartley 2003:132). Williams and Cooper (2002: 4) argue that it has been proven that stress management programmes are not as frequently implemented as desired. The reason being, that only medium to large organisations make the resources available to finance the implementation of stress management programmes due intensive costs. Another reason is that it often requires changes in the organisational structure and culture of the organisation. Besides coping with change and costs, an overall positive attitude towards these programmes is necessary in order to be successful. (Fisher *et al.*, 2003:139.)

Given the reality of stress in the workplace of today, the research question to be addressed in this article is: *To what extent are stress management programmes being implemented in organisations.*

## **RESEARCH OBJECTIVES**

The primary objective of this article is to investigate whether or not selected organisations in the Nelson Mandela Metropole, South Africa, implement stress management programmes in order to minimise stress factors within the workplace. To facilitate the achievement of the primary objective of the study, the following secondary goals are identified:

- Identification of stress factors that have various negative influences on employees;
- Taking into consideration the different approaches of stress management programmes;
- To identify the resources that assist in the successful implementation of stress management programmes within organisations;
- Empirical assessment of the organisational strategies that are implemented in order to minimize stress and stressors.
- To provide general guidelines for implementing stress management programmes in organisations.

## **A THEORETICAL OVERVIEW OF STRESS MANAGEMENT PROGRAMMES**

### **Concept clarification**

- **Stress**

Cranwell-Ward, Bassons and Gover (2004:2) refer to stress as the result of a person's perceived capacity that is insufficient to the demands of the situation, therefore, stress can be perceived as the result of imbalance. Stress can also be seen as an adaptive response, mediated by individual characteristics and/or psychological processes that are the result of any external actions, situations, or events that place special physical and/or psychological demands upon a person (Hancock & Szalma, 2008:271)

- **Organisational/job stress**

Organisational/job stress can evolve due to discrepancies involving relationships between environmental demands and individual abilities (Williams & Cooper, 2002: 4). According to Quick *et al.*, (1998:10), job stress can be defined as the mind-body arousal resulting from physical and/or psychological demands associated with a job.

- **Stress management programmes**

Stress management programmes are defined as strategies for preventing job strain and channelling job stress into healthy and productive outcomes (Quick *et al.*, 1998:11). Stress management interventions are often facilitated by practitioners with special knowledge and skills, such as psychologists and physicians. More recently, organisational development practitioners have gained more knowledge and expertise in this area and have integrated stress management into parts of the organisational development efforts. (Daft, 2008:419).

### **The need for stress management programmes**

An organisation may not be concerned when employees experience low to moderate stress levels, because such levels of stress may be functional and lead to higher performance. But, on the other hand, high levels of stress, or even lower levels of stress sustained over periods of time, can result in reduced employee performance and, therefore, require action by management. (Robbins, 2001:570). While stress became a more prevalent factor and the influences of stress on organisational performance became more apparent, organisations effectively developed a better understanding of the importance of stress level reduction of employees within the last two decades. Corporations began to realise that employee's health and stress levels could influence the corporation's success negatively, if mismanaged (Williams & Cooper, 2002: 4). During the 1980's, stress management focused on the affects of stress on performance outputs. While, in comparison, in the 1990s, organisations developed a wide variety of stress intervention programmes. As mentioned above, during the last decade, organisations commenced developing an organisational culture, with a primary focus on policies and strategies, in order to minimize

stress levels and maximize employee's health (Schreuder & Theron, 2002:190). This organisational culture, with its policies and strategies include; preventive management, maintaining a productive culture, management by objectives, controlling the physical environment and employee fitness facilities, to name but a few. Other, more personal, strategies include mediation, exercise, removing the causes of stress, mentorship, counselling and extended leave and holidays for employees. (Carrell *et al.*, 1995:591-592). Stress at the workplace, caused by various factors, is a serious facet of an organisational culture (Carrell *et al.*, 1995:591). Levels of stress are high and can lead to low productivity, increased absenteeism and lower financial turnover, and a variety of other employee-related problems such as alcoholism, drug abuse, hypertension and a variety of cardiovascular problems. Recent developments also indicate, that the monitoring and caretaking of employees has developed tremendously from a purely business orientated priority to an ethical priority within organisations (Daft, 2008:579). This development may be the result of the fact that employees spend a large part of their day at their place of employment. The employer and the employing organisation can influence the wellbeing of an individual immensely with special attention addressed to employee satisfaction and employee health. (Blackler & Schimmin, 1994:25).

### **Causes of organisational stress**

Robbins and Coulter (2005:324) state that two main categories of organisational stress that can influence employees' performance, namely personal and job-related stress. Stress originates from various sources .Table 1 indicates the major sources of stress in an organisation.

**TABLE 1**  
**MAJOR SOURCES OF STRESS**

<b>Level</b>	<b>Examples</b>	<b>Authors</b>
<b>Individual</b>	Personality Tolerance for ambiguity Locus of control Rate of life changes Ability to cope with change Motivation Skill level and ability	Hellriegel & Slocum (2004:170) Srivastava (2009) Lundberg & Cooper (2010:184)
<b>Work/job design</b>	Workload Role ambiguity Role conflict Time pressure Scheduling Communications Working relationships	Cooper, Dewe & O'Driscoll (2001) DuBrin (2007:305)
<b>Organisation</b>	Organisation design Organisational technological complexity and Policies and procedures Political processes Management style Organisational culture Positioning in industry	Johnson, Cooper, Cartwright, Donald, Taylor & Millet (2005:178) Sveinsdottir, Biering & Ramel (2005)
<b>Other</b>	Career development Working conditions Interpersonal relationships	Quick <i>et al.</i> , (1998:177) Hellriegel & Slocum (2004:175) Schultz <i>et al.</i> , (2003:208) Leka, Griffith & Cox 2003 Cranwell-Ward <i>et al.</i> , (2004:2)

Although the above Table should not be seen as exhaustive, it indicates the major sources or factors contributing to stress levels of employees in the workplace. An in-depth discussion of these factors, however, falls beyond the scope of this article.



## **Types of stress management programmes**

In order to minimise stress and its effects, strategies or stress management programmes need to be put into place and effectively implemented. A variety of stress management strategies can be implemented by the organisation and should be made available to affected employees. In order to establish an environment wherein employees can fulfil their tasks and perform effectively, the task of reducing stress should be embarked upon (James, 1997:12). Establishing a healthy organisation with a low stress levels requires various stress management programmes and strategies to be implemented. Two main categories of such programmes are ones with either an organisational focus or programmes with an individual focus. (Quick *et al.*, 1998:277-286).

- **Stress management programmes with an organisational focus**

Prior to implementing expensive and sophisticated programmes, organisations should implement regular stress related audits in order to reduce stress levels. These regular audits can establish the differences in alternative employee responses to stresses (Fisher *et al.*, 2003:139). Management has to realise that stress should be seen as a wider part of organisational practises (James, 1997:12). One possibility of reducing stress is the establishment of smaller groups with one responsible manager, where continuous stress assessments are conducted so as to identify problem areas. Within those small groups, training courses can be designed in order to minimise the stress levels and structurally tackle the sources of stress on an organisational level (James, 1997:18). Organisations have different ways of approaching stress within the organisation. Some organisations focus on stress prevention, whereas, other organisations place more focus on the reaction toward stress – rehabilitation to help employees deal with the consequences of stress. In this regard, three main types of stress intervention programmes have been identified. The first category of the three different stress intervention programmes is called primary prevention which approaches work-related stress by amending structural facets and elements of the characteristics of work itself. The second type of stress interventions is called secondary interventions which aim to develop skills to deal with stress in turbulent times. The third type of stress interventions, so-called, tertiary interventions, has a view to minimise the effect of work-related stress on employee's health. (Psychosocial Risk Management, 2010).

- **Stress management programmes with an individual focus**

Organisations should form a healthy organisational culture and climate with growth potential and sustainability. It is essential that individual employees are subjected to preventative stress management programmes (Quick *et al.*, 1998: 277). Most stress management programmes with an individualistic focus are wellness programmes that can have positive impacts on employees' stress levels and, as a consequence, health. Such wellness programmes deal with issues such as physical activity, nutrition and stress management. These programmes draw special attention to a healthy lifestyle in order to make resources available for better health (Asrani, 2010). According to Hellriegel and Slocum (2004:185-186) wellness programmes can improve the ability of individuals to cope with stress and focus on the improvement of emotional, physical and spiritual wellness of employees.

#### **Alternatives to the implementation of stress management programmes**

Affordable alternatives to stress management programmes are stress management training programmes, counselling, and employee assistance programmes (EAPs). These alternatives are generally less cost intensive and complicated than the long-term restructuring of work practises due to stress management programmes. (Fisher *et al.*, 2003:140.) Before the implementation of costly stress management programmes, organisations could consider changing the physical conditions of the workplace and management styles of the organisation (Hartley, 2003:132). Organisations can also make a variety of helpful techniques available to their employees, in order to manage stress more effectively. These include regular exercise, sufficient rest and a healthy balanced diet. Organisations often make resources available to their employees and support them in order to promote healthy habits which have the effect of managing stress and being more productive (Daft, 2008:578-579).

## INFLUENCE OF DEMOGRAPHICS ON STRESS MANAGEMENT PROGRAMMES

Various authors (see for example Allan, Loudoun & Peetz, 2007:219; Buker & Wiecko, 2007:291 and Syed & Roland, 2010) attempted to investigate the influence of demographics on work stress management with varying results. Juratli, Janisse, Schwartz and Arnetz (2010) and Vakola and Nikolaou (2005:160) have found very little influence of demographic factors on stress levels of individuals. Chang, Daly, Hancock, Bidewell, Johnson, Lambert and Lambert (2006:30) however identified important implications of demographical influences on workplace stressors and coping mechanisms. Significant relationships were found between workplace stressors and age, number of years employed in a position and support received. Rabl and Kuhlmann (2009:88) concur that age is a definite predictor of coping with workplace stress, whereas Kim, Murrmann and Lee (2009:612) and Mesko, Mesko Stok, Mijoc Karpljuk and Videmsek (2009:288) found moderating effects of gender on role stress and stress symptoms. Chang and Lu (2007:549) investigated the influence of various organisational culture characteristics on work stressors.

Based on the above-mentioned reasoning, various null-hypotheses were formulated in this study. A total of 32 null-hypotheses were formulated and tested, based on the eight independent variables (demographic data) and four dependent variables (stress management implementation factors). Only those null-hypotheses indicating significant relationships between the tested variables are reported in this article. The following four null-hypotheses are reported on:

- H0<sub>1</sub>: There is no relationship between *organisational focused stress management programmes* and the *gender* of respondents.
- H0<sub>2</sub>: There is no relationship between *individual focused stress management programmes* and the *age* of respondents.
- H0<sub>3</sub>: There is no relationship between the *implementation aspects of stress management programmes* and the *position of respondents* in an organisation.
- H0<sub>4</sub>: There is no relationship between the *responsibility for stress management programmes* and the *ethnic classification* of respondents.

The research hypotheses ( $H_1$  to  $H_4$ ) could be stated as the exact opposite of the above stated null-hypotheses.

## **RESEARCH METHODOLOGY**

### **Research approach**

There are two main research approaches, namely qualitative and quantitative research (Collis & Hussey, 2003:47). Qualitative research is more subjective in nature and involves examining and reflecting on perceptions in order to gain an understanding of social and human activities. Qualitative data, furthermore, refers to information gathered by the researcher that is not expressed in numbers. Quantitative research is objective in nature and concentrates on measuring phenomena using numbers (Collis & Hussey 2003:13). It is a form of conclusive research involving large representative samples and fairly structured data collection techniques. The main purpose of quantitative research is to test hypothesis (Struwig & Stead, 2001:4). The quantitative approach is used in this study by means of both exploratory and descriptive methods in order to gather and establish the attitudes and perceptions regarding the implementation of stress management programmes.

### **Population**

A population or universe is any complete group of people that share some set of characteristics (Zikmund, 2003:369). The total population for this study can be described as all employees in organisations subjected to some of stress and exposed to stress management programmes in the Nelson Mandela Metropole, South Africa.

### **Sampling**

Zikmund (2003:369) defines sampling as the process of using a small number of objects or parts of a larger population to make conclusions about the whole population. Non-probability sampling is a sampling technique in which units of the sample are selected on the basis of personal

judgment or convenience (Zikmund, 2003:380). Non-probability sampling is used in this study by means of convenience sampling where organisations are selected on the basis of personal judgment, convenience and based upon various appropriate characteristics of the sample members (Zikmund, 2003:381-382). The sample size will be restricted to a maximum of 110 respondents of organisations most likely concerned with the implementation of stress management programmes. The respondents had to respond on behalf of their organisations and not necessarily their own opinions.

### **Data collection**

Both primary and secondary data were collected. Collis and Hussey (2003:150) refer to primary data as original data. Primary or original data can be collected through observations and surveys. Surveys are used when the research project involves the collection of information from a large sample of individuals, groups or organisations. Self-administrative questionnaires and in some cases personal interviews were conducted (Hair, Babin, Money & Samouel, 2003:124-130). Secondary data is classified as data that have been previously collected for some project other than the one at hand (Zikmund, 2003:63). In this study, books, periodicals, government sources, regional publications, media sources and the Internet was used.

### **Questionnaire design**

A questionnaire is a list of carefully structured questions, chosen after considerable testing, to elicit reliable responses from a chosen sample. The aim is to identify what a selected group of participants do, think or feel (Collis & Hussey, 2003:173). The questionnaire used in this study consisted of the following four sections:

- Section A identified the *classification data* of the respondents and their respective organisations, such as gender, age, ethnicity, form of organisation, type of industry, years of existence and employment size. Seven variables are tested using a nominal scale of measurement.

- In Section B, multiple choice and fixed-alternative questions gather information regarding the *causes of stress* within the organisation, using a nominal scale of measurement.
- Section C deals with the minimisation of stress within the organisation. Multiple-choice questions and fixed-alternative questions are utilised in order to gather information using a nominal scale.
- Section D utilises an attitude rating scale to establish how organisations implement stress management programmes and which strategies they implement. A six-point Likert-type scale is used (ordinal data).

### **Pilot study**

A pilot study was conducted by distributing the self administrative questionnaire to 10 selected organisations for the population (convenience sample). This assisted in making minor changes to the questionnaire regarding, format, wording and sequence of questions.

### **Data analysis**

After the questionnaires have been received it was inspected, coded and the data transferred to an Excell spreadsheet and analysed by means of the SPSS statistical software package. Advanced statistical analysis such as calculating Chronbach's alpha, ANOVA and correlation coefficients were also used.

## **EMPIRICAL RESULTS**

### **Demographical profile of respondents**

Table 2 provides a demographical profile of the respondents of this study. Eight classification data variables were used in Section A of the questionnaire.

**TABLE 2**  
**DEMOGRAPHICAL PROFILE OF RESPONDENTS**

<b>Characteristic</b>	<b>Category</b>	<b>Amount</b>	<b>%</b>
<b>Gender</b>	Male	73	66
	Female	37	34
<b>Age</b>	<20	0	0
	20-29 years	30	27
	30-39 years	14	13
	40-49 years	34	31
	50-59 years	25	23
	60+	7	6
<b>Ethnic classification</b>	White	88	80
	Coloured	10	9
	Black	10	9
	Asian	1	1
	Other	1	1
<b>Position in business</b>	Manager	36	33
	Owner	15	14
	Employee	43	39
	Other	16	14
<b>Form of enterprise</b>	Sole trader	4	4
	Partnership	4	4
	Private company	69	63
	Close corporation	18	16
	Trust	1	1
	JSE listed enterprise	10	9
	Other	4	3
<b>Employment size</b>	Small	16	15
	Medium	54	49
	Large	40	36
<b>Length of existence</b>	< 1 year	0	0
	1-7 year	7	6
	7 year +	103	94
<b>Industry type</b>	Retail/Wholesale	14	13
	Manufacturing	32	30
	Business services	9	8
	Financial services	18	17
	Transport	4	4
	Construction	3	3
	Communication	2	2
	Distribution	0	0
	Other	26	24

Table 2 clearly shows that 66% of the respondents are males and 34% are females and 54% of them are between the ages of 40 and 59 years and 40% between 20 and 39 years. In terms of ethnic classification, 80% of the respondents are white and 19% are black and coloured, respectively. Forty-seven percent of the respondents are owners or managers and 39% are employees. The majority of the respondents (63%) are employed in private companies whereas 16% are employed in close corporations and 49% of these organisations could be regarded as medium-sized and 36% as large organisations. Regarding the length of existence of the organisation, 94% of the respondents' organisations have been in existence for longer than seven years. Thirty percent of the respondents are employed in manufacturing industries whilst 30% are employed in retail/wholesaling or financial services.

### Frequency distribution results

Table 3 indicates the frequency distribution results of the major causes of stress.

**TABLE 3**  
**FREQUENCY DISTRIBUTION RESULTS: MAJOR CAUSES OF STRESS\***

<b>Cause</b>	<b>Description</b>	<b>Amount</b>	<b>%</b>
Individual stressors	Personality	53	48
	Skills level and ability	42	38
	Ability to cope with change	28	25
Career development	Misfit between personal interests and job tasks	34	31
	Inability to analyse career opportunities	27	25
	Insufficient career opportunities	27	25
Job-related stressors	Communication	46	42
	Working relationships	39	35
	Role conflict	32	29
	Time pressures	32	29
Working environment	Air quality	31	28
	Appropriate temperature	31	28
	Noise and vibration levels	9	8
Interpersonal relationships	Inadequate	38	35
	Poor co-worker relationships	37	34
	Unsupportive supervision	36	33
Organisational stressors	Political processes	45	41
	Organisational design	36	33



\* Multiple answers were possible

In terms of causes of organisational stress, multiple answers of respondents were possible and the three highest frequencies of each cause are highlighted in Table 3. The following were the main causes in each category: personality (48%); a misfit between personal interests and job tasks (31%); communication (42%); air quality and appropriate temperature (28%); inadequate interpersonal relationships (35%) and political processes (41%).

**TABLE 4**  
**FREQUENCY DISTRIBUTION RESULTS: MINIMISATION OF ORGANISATIONAL STRESS**

<b>Description</b>	<b>Yes</b>	<b>%</b>	<b>No</b>	<b>%</b>
Organisational assistance	48	44	62	56
Own efforts	75	68	35	32
Top management awareness	83	75	27	25
Need for programmes and procedures	87	79	23	21
Employer positive contributions	48	44	62	56

Table 4 shows that 54% of the respondents indicated that no organisational assistance or positive employer contributions (62%) are provided to minimise stress in the workplace. Seventy-five percent of the respondents use their own efforts to reduce stress. The majority of the respondents agree that top management is aware of the impact of stress in the workplace (83%) and that there is a need for programmes and procedures to minimise stress (87%).

### **Descriptive statistics**

Table 5 indicates the descriptive statistics for Section D of the questionnaire (implementation of stress management programmes).

**TABLE 5**  
**DESCRIPTIVE STATISTICS: IMPLEMENTATION OF STRESS MANAGEMENT**  
**PROGRAMMES (SECTION D)**

<b>Items/ Variable</b>	<b>Factor</b>	<b>Mean</b>	<b>Standard Deviation</b>
D1-D9	Organisational focused stress management programmes	2.82	0.44
D10-D13	Individual focused stress management programmes	2.85	0.94
D14-D23	Implementation aspects of stress management programmes	2.63	0.49
D24-D28	Responsibilities for stress management programmes	3.53	0.65

It appears that the mean scores for organisational and individual focused stress programmes and implementation aspects cluster around point three (neutral) on the five-point scale. Respondents tend to be neutral towards these factors. The mean score for responsibilities for stress management programmes tends to be more on the agree side of the scale (agree slightly). The standard deviation scores for the factors are relatively low, indicating that respondents do not vary much in their responses towards these factors.

### **Reliability and Validity of the Measuring Instrument**

External validity refers to the generalisation of research results to other population groups and is ensured by means of a proper and sound sampling procedure. Clear guidance was given regarding the place, time and conditions in which the research was to be conducted. Internal validity of the instrument's scores is ensured through both face and content validity. Expert judgement and a pilot study were undertaken to assist in this regard. Internal consistency reliability was ensured by means of calculating Cronbach's alpha values. The statistical software package, SPSS, was used to determine the Cronbach's alpha values for the four predetermined factors of Section D to confirm internal reliability (refer to Table 6).

**TABLE 6**  
**CRONBACH'S ALPHA VALUES FOR SECTION D OF THE QUESTIONNAIRE**

<b>Items/ Variable</b>	<b>Factor</b>	<b>Cronbach's alpha</b>
D1-D9	Organisational focused stress management programmes	0.68
D10-D13	Individual focused stress management programmes	0.71
D14-D23	Implementation aspects of stress management programmes	0.59
D24-D28	Responsibilities for stress management programmes	0.53

Table 6 shows that the Cronbach's alpha values for these factors are internally reliable. According to Hair, Anderson, Tatham and Black (1998:118), Cronbach's alpha value may be decreased to 0.5 in exploratory research.

### ***ANOVA***

The purpose of this analysis is to investigate the relationship between the independent and dependent variables and to test the stated hypotheses. Table 7 provides an outline of the variables used in this analysis. Different analyses of variance exercises were conducted to test the stated hypotheses. A total of 32 hypotheses were formulated. Only those ANOVA results that show significant relationships between the eight independent and four dependent variables are reported and those that exhibit no significant relationships are excluded from this discussion. The ANOVA exercises investigated the relationship between the implementation of stress management programmes (dependent variables) and classification data (independent variables).

**TABLE 7**  
**ANALYSIS OF VARIANCE RESULTS OF THE DEPENDENT AND INDEPENDENT**  
**VARIABLES**

<b>Dependent variables</b>	<b>Independent variables</b>	<b>Df</b>	<b>F-Test</b>	<b>P-value</b>	<b>Hypotheses</b>
Organisational focused stress management programmes	Gender	2	9.409	0.003	H <sub>01</sub>
Individual focused stress management programmes	Age	6	3.898	0.004	H <sub>02</sub>
Implementation aspects of stress management programmes	Position in organisation	4	5.592	0.001	H <sub>03</sub>
Responsibility for stress management programmes	Ethnic classification	5	4.747	0.001	H <sub>05</sub>

Table 7 indicates that the null-hypotheses (H<sub>01</sub> to H<sub>04</sub>) can in all cases be rejected at a significance level of 0.05. There appears to be a significant relationship between organisational focused stress management programmes and the gender of respondents (H<sub>1</sub> accepted). Based on the p-value of 0.004 and F-statistic, there appears to be significant relationship between individual focused stress management programmes and the age of respondents (H<sub>2</sub> accepted). There also appears to be a significant relationship between the implementation aspects of stress management programmes and the position of respondents in an organisation (H<sub>3</sub> accepted). H<sub>04</sub> can also be rejected, indicating that there is a significant relationship (p-value < 0.05) between the responsibility for stress management programmes and the ethnic classification of respondents (H<sub>4</sub> accepted). No relationships exist between the dependent variables and the following independent variables: form of enterprise; employment size; length of existence and industry type.

## **CONCLUSIONS AND RECOMMENDATIONS**

In order to reduce stress within organisations, stress management programmes need to be implemented. Two major types of stress management programmes have been identified, namely, programmes with an organisational focus and programmes with an individual focus. Healthier and less stressed employees tend to be more effective and efficient which will ultimately contribute towards job satisfaction and productivity. Therefore, it is advisable that organisations should have a more in-depth look into implementing programmes or procedures in order to

manage stress within their organisation. Not all programmes are sophisticated and expensive and not all programmes and procedures demand structural cultural changes within the organisation. Organisations should try to commence with investing in healthier and less stressed employees.

Based on the analysis of variance results, the following conclusions and recommendations can be identified:

- There appears to be a significant relationship between organisational focused stress management programmes and the gender of respondents ( $H_{01}$  rejected). Male and female employees have divergent viewpoints regarding organisational focused stress management programmes. Organisations have different ways of approaching stress within the organisation. Some organisations focus on stress prevention, whereas, other organisations place more focus on the reaction toward stress – rehabilitation to help employees deal with the consequences of stress. Organisations should thus realise that these interventions should be gender sensitive and that males and females appreciate and value aspects of these interventions differently.
- It appears that there is a significant relationship between individual focused stress management programmes and the age of respondents ( $H_{02}$  rejected). Most stress management programmes with an individualistic focus are wellness programmes dealing with issues such as of emotional, physical and spiritual wellness of employees. It should thus be obvious that employees of different age groups value these interventions differently and organisations should therefore make provision for the needs of different age groups.
- There also appears to be a significant relationship between the implementation aspects of stress management programmes and the position of respondents in an organisation ( $H_{03}$  rejected). Owners/managers and employees have divergent viewpoints regarding the implementation aspects of stress management programmes. Organisations should therefore ensure that both owners/managers and employees understand all implementation aspects of stress management programmes and their respective needs are taken into consideration.
- A significant relationship exists between the responsibility for stress management programmes and the ethnic classification of respondents ( $H_{04}$  rejected). Different ethnic

groups have divergent views regarding the responsibilities for stress management programmes. Organisations should thus be ethnic sensitive when dealing with the responsibilities for implementing stress management programmes.

Table 8 highlights some general guidelines for implementing organisational stress management programmes.

**TABLE 8**  
**GUIDELINES FOR IMPLEMENTING ORGANISATIONAL STRESS PROGRAMMES**

<b>No.</b>	<b>Guidelines</b>
1	Organisations should make more resources available to reduce stress and conduct regular stress related audits.
2	Stress management interventions should focus on minimising the effect of stress on employees' health.
3	Stress interventions should focus on changing structural facets and characteristics of the work itself and developing skills to cope with stress.
4	Stress management programmes with an individual focus should take place through wellness programmes aimed at healthy lifestyles.
5	Successful implantation of stress management programmes requires top management support and adequate financial resources.
6	Organisations should not only focus on stress rehabilitation or reacting toward stress, but also on stress prevention.
7	Organisations should develop a better understanding of the importance of stress reduction in the workplace and its impact on effective performance.
8	Career development should be proactively managed to ensure that capabilities of employees are objectively and realistically evaluated with regards to job security, promotions, transfers and development opportunities.
9	Organisations should provide a healthy working environment for employees (e.g. temperatures, air quality, lighting and noise levels).
10	Productive and healthy relationships amongst employees and management should be created and promoted as to ensure that stress levels are reduced.
11	The implementation of stress management programmes should not only be seen as a priority and responsibility of medium- or large-sized organisations but even of smaller organisations.
12	Organisations should not only view the implementation of stress management programmes as a major expense or cost category but also see the long-term benefits thereof.

## LIMITATIONS OF THE RESEARCH

The following are the main limitations regarding this research project:

- The sample was limited to 110 respondents only.
- The target population included only organisations in the Nelson Mandela Metropole and is not representative of other regions in South Africa.
- The respondents are not equally representative in terms of ethnic classification.

The following seems appropriate to conclude this paper with:

*“Stress is a hot topic ... its popularity stems from the need to get a handle on this condition to deal with stress effectively enough so as to lead a normal and healthy life. But dealing with stress is a process not an outcome. Many people’s attitudes, influenced by their lifestyles and expectations of immediate gratification, reflect the need to eradicate stress, rather than to manage, reduce or control their perceptions of it. But knowledge of the concept of stress management alone is not enough ... continuous application of this knowledge is essential for total well-being ...”*  
(Seaward, 2006: xix)

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*Recognition is hereby given to Mr B Frohlich who conducted the empirical study.*

# **INTERNATIONAL STUDENTS' VIEWS ON DIVERSITY IMPEDIMENTS AT THE UNIVERSITY OF KWAZULU-NATAL**

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**Keywords: Internationalisation, Diversity, Higher Education and Impediments.**

# INTERNATIONAL STUDENTS' VIEWS ON DIVERSITY IMPEDIMENTS AT THE UNIVERSITY OF KWAZULU-NATAL

## ABSTRACT

**Background:** Knowledge of international students is essential to higher education institutions. Between the years 2009 and 2010, an average of approximately 5400 applications were received at the University of KwaZulu-Natal from international students (Division of Management Information, 2010). It can be said that international students have become a vibrant part of the diversity in South Africa's education sector and provide immense benefits to our economy, educational institutions, local students and educators. However, there exists a paucity of research on the post-choice perceptions of international students.

**Purpose and Methods:** The purpose of this research study was to assess the post-choice views of international students at UKZN, with special references to diversity impediments. A cross-sectional/survey design using questionnaires, with both descriptive and analytical components was employed. The researchers randomly selected 300 students from an updated listing of the registered international students chosen by the generation of random numbers to achieve the objectives of the study. The researchers surveyed the 300 students which were easiest to get a hold of who were contacted via email and invited to participate in the study. The responses of 280 international students were received and analysed. All data was processed and analysed using the SPSS version 15.0 (SPSS Inc., Chicago, Illinois, USA). For all statistical comparisons, the 5% significance level (two-tail) was used. Ethical clearance was obtained from the Human Research Ethics Committee (HREC) of the University of KwaZulu-Natal.

**Results and Conclusion:** The identified diversity impediments experienced by international students at higher education institutions were found to be: language and communication; social interaction across race/ethnicity; discrimination; Pedagogical approaches; finances; interracial conflict/tension; curriculum; assessment methods; lifestyle adjustment; campus services and facilities; classroom diversity; staff interaction and lastly, campus administration and policies. It was ascertained by the results of the study that a lack of platforms for social and interracial mixing; inadequate part-time/casual jobs; insufficient financial aid; scant campus residency; and the unpreparedness of host families on arrival are the predominant diversity impediments experienced by international students at UKZN.

The writer has therefore attempted to provide recommendations from the results and findings to ensure the needs of international students are met and to create a more diversified campus climate, some of which are investigating possible methods of assisting foreign students financially and ensuring adequate training and education of host families of international students.

## **INTRODUCTION**

International students represent an increasing, emerging group of students at all major higher education institutions around the world. This can be attributed, in part, to the rapid globalisation trends over the past decade, and the growing desire of students to maximise the experience of their higher education and training. The growing appeal of international study is a now well documented phenomenon, and South Africa's place on the international map of possible destinations is still poorly understood. More importantly, there exists a paucity of information of the experiences and challenges of international students who have studied here or who are currently studying here.

Information on international students, their backgrounds, expectations, and views is essential to higher education institutions. Their expectations and perceptions are constantly changing as the environment, demands of society and the economy evolve. Therefore, it is important for universities to keep abreast with international students to ensure that all expectations of international students are being met and that all the universities' goals relating to internationalization (i.e., redesigning the curricula, promoting internationalization and forging strategic partnerships) are achieved.

In contrast to numerous research studies conducted on diversity at UKZN, limited research has been directed at international students. Universities have much to gain from a more insightful understanding of international students and their views of diversity management as they constitute an important segment of a university. Their presence is so significant that it is said by the Council of Higher Education ([www.che.org.za](http://www.che.org.za)) that, "HEIs should reserve at least 5% of student admissions for students from SADC nations other than their own (to a target maximum of 10% overall)". Therefore, UKZN aims at enrolling 5-10% SADC international students of the total population of students, and students from other countries are also admitted. In relation to the views of international students on diversity impediments at UKZN, the present study

may be looked at as a response to this need for research on international students. The challenge is for higher education institutions to meet the expectations of international students faced in a globalised education market (educational and non-educational services) and to coordinate multiple efforts so they have a better impact on all students, as well as the institution. There is certainty that knowledge of international students would be a significant benefit to the university management and International Students' Office.

Therefore, this study aims to assess the post-choice views of international students at UKZN, with special references to diversity impediments and to offer recommendations for an improved learning institution. The information gathered will be useful to higher education institutions in offering a conceptual plan of best practices that contribute to accommodating and maximizing benefits for international students with regards to diversity management.

## **RESEARCH OBJECTIVES**

The following are the research objectives of the study:

- Identify the diversity impediments experienced by international students at higher education institutions;
- To assess the view of international students regarding which of these impediments are the most predominant at UKZN;
- To make recommendations accordingly to improve the perceptions, experiences and satisfaction of international students regarding diversity at UKZN.

## **INTERNATIONAL STUDENTS**

Studying abroad for international students is an opportunity to have the world revealed to them by permitting socialization with different people, from different cultures and walks of life, which can allow them to understand themselves and others better. The Institute of International Education (2004:7) suggests a possible definition of an international student as an individual who has relocated to another country mainly for study purposes, however, it must be noted that there are various kinds of international students which may include students undertaking distance learning programmes by an institution in another country or students registered in branch programmes facilitated by faculty from another country. Sekuler and Blake (2002) as

cited by Mohammed (2009:7) note that studying and analyzing the background of people, how they perceive diversity and what they expect in terms of diversity helps in exploring their viewpoints about the multiplicity of cultures as well as the gain of unity. They further mention that studying perception can enable leaders to create strategies that ensure optimal perceptual outcomes.

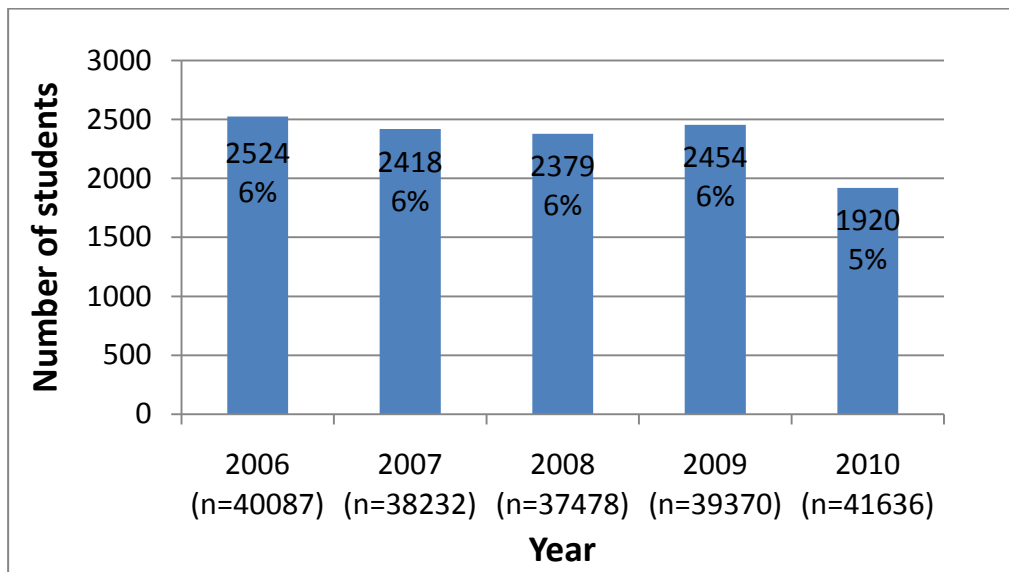
South Africa is said to be emerging as one of the world's most popular study destinations. This is demonstrated in the rapidly increasing number of international students. According to the provisional Department of Education figures, as stated in the Higher Education South Africa booklet, since 1994, there has been a remarkable increase in international students from 12600 to over 64000 in 2008. This is almost 8% of a total of 800 000 students at the country's 23 public universities. Therefore, it is not unexpected that 71% of international students are from neighbouring SADC countries where English is commonly spoken – 45718 in 2008, along with 15% from the rest of Africa, and 11% from other continents.

However, students perceive their study environment differently, according to the type of student they are. The manner in which students perceive the campus environment is referred to be typologies such as collegiate, academic, vocational, and nonconformist. Carter and Sedlacek (1986:13) say that university is viewed as career preparation for the vocational type; as a place to pursue knowledge and ideas for the academic type; a place for extra-curricular and social activities for the collegian types and for individual interests by the non-conformist type. This statement implies that the perception of an international student regarding the college environment is influenced by the reasons they attend university and what they expect to achieve there.

According to the UKZN Division of Management Information (2010), the number of international students has been consistent over the past five years until 2010 when it dropped to 5%.



**Figure 1: International Student Enrolments at the University of KwaZulu-Natal for 2006 – 2010**



Source: Division of Management Information (2010)

According to the Division of Management Information (2010), international students attending UKZN represent over 100 countries worldwide and currently, only 640 out of 1 920 have English as their home language.

According to Arambewela and Hall (2009:12) some factors that affect the views, choice of study destination and satisfaction of international students are:

**Education:** The education construct highlights the fact that feedback from lecturers, good access to lecturers and quality of teaching are perceived to be the most important variables influencing student satisfaction;

**Social:** The counselling services, social activities, close working relationships with other students and international orientation programs are considered most important variables within the social construct that influence student satisfaction;

**Technology:** High expectations are formed by students, given the promises made by universities through their promotional material and local agents or consultants in regard to the availability of basic facilities such as computer equipment;

**Economic:** Variables such as casual jobs, migration opportunities, fees and the cost of living are considered within the economic construct;

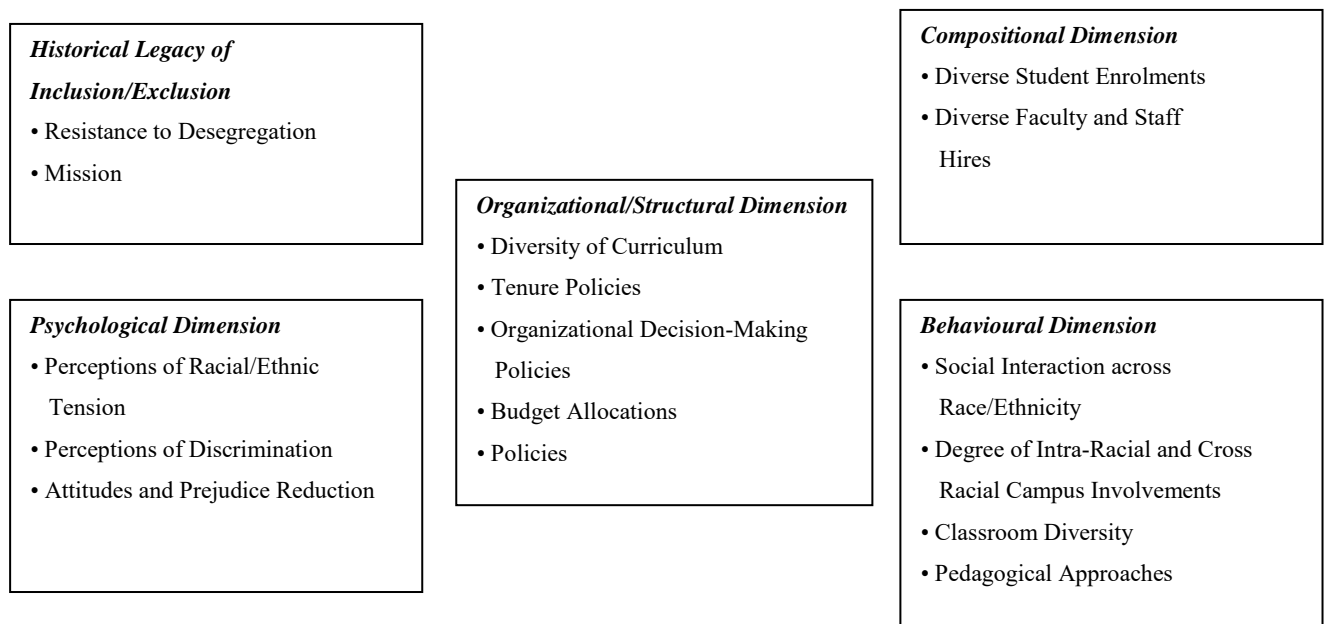
**Accommodation:** It was found that international students expect easily available student accommodation at a reasonable cost by universities or by private agencies which meet their minimum standards of comfort and conducive learning environments;

**Safety:** International students expect universities to take sufficient safety and security precautions as potential students and their families are becoming more critical when choosing their educational institutions and lastly;

**Prestige and image:** A high international image and the prestige of a university are attractive to students as it is expected that such image and prestige would create better career opportunities for them. These factors should be well addressed by a university as many challenges may arise for international students from these factors.

A generic model for campus diversity has been used in this study and is presented.

**Figure 2: A Generic Campus Diversity Model for Universities**



Source: Hurtado and colleagues (1998, 1999) as cited in Milem *et al.* (2005:16)

The following findings have been noted as impediments experienced by international students at higher education institutions:

- Language and Communication- Language limitations may make it difficult for international students to understand what is expected of them by lecturers and to participate in class discussions (Trigwell & Shale, 2004:13). They go on to say that it is expected for instructors to deliver content by using use suitable language as the

medium. It was said by Cross (2004:86) that the workload burden of foreign students could be indirectly increased by language difficulties. A key issue with language is the challenges that may arise by lecturers' language types and genres i.e. unfamiliar concepts, acronyms (Errey, 1994 as cited in Ryan and Hellmundt, 2003:11).

- Social Interaction across Race/Ethnicity- It is said when forming social networks in a foreign country with diverse races and cultures, international students may feel helpless (Krause, 2005). Ryan *et al.* (2003:12) went on to say that establishing friendships in their new environment may be a challenge and that some international students tend to only socialize with other students from their home country.

- Discrimination

Kossek, Lobel and Brown (1996: 167) state that a common barrier to international students in a foreign institution is discrimination. This is another factor that may occur on various levels between students, staff, faculty etc i.e. gender, cultural, racial, sexual. Sadri and Tran (2002: 234) also state that this can cause high levels of alienation, dissatisfaction and exclusion.

- Pedagogical Approaches

According to the work of Errey (1994) as cited in Ryan *et al.* (2003:10) sources of difficulties posed for international students may be through the traditional question-answer conventions between teachers and students; the mismatch between the lecturer's teaching style and the student's learning style or the appropriateness of the curriculum to international students. Davis (1993:22) states that each individual looks at the world differently and the approaches in which each student learns may be influenced by the way their unique, individual personality perceives the world.

- Finances

Another major challenge facing international students is financial pressure, especially the students who do not receive financial aid and have costs such as living expenses, textbooks and tuitions (Veloutsou *et al.* 2004:27). They went on to state that the

exchange rate between currencies could be high for certain international students coming from developing countries.

- Interracial Conflict/Tension

The racially and ethnically diverse institution can create tension, isolation, and negativity if not properly managed. By itself the diverse university cannot produce the positive results of which it is capable (Milem *et al.* 2005:22). A study was conducted in USA by Hurtado (1992). She states that the research literature suggests that instances of overt racial conflict should not be seen as isolated incidents or an abnormality but should be viewed as an indicator of a more general difficulty of unsettled racial matters in universities and in society as a whole.

- Curriculum

Ryan *et al.* (2003:16) argues that a source of difficulty can be the appropriateness of the curriculum to international students. Schneider (1990:18) also states that in the presence of a diverse student body, disequilibrium as well as a climate of campus exclusion may be caused by a lack of diverse perspectives in the curriculum.

- Assessment methods

Brown (2001:7) mentions that fairly assessing a diverse mix of students is integral in higher education. Feedback and assessment are both central components of learning and methods in both can pose problems for international students unfamiliar to the university system. Generally speaking, larger classes mean a more diverse and complex student mix. Spack (1997:9) states that, "It is useful where possible to develop student skills and understanding related to the assessment requirements prior to their undertaking assessment tasks in order to lessen the marking workload associated with poor quality submissions".

- Lifestyle Adjustment

Existing research has highlighted that the adjustment of international students is influenced by their assimilation of a country's culture which poses as a significant factor. Gordon (1964) as cited in Doble and Supriya (2011:27) asserts that, "an immigrant is assimilated as soon as he has shown that he can get on in the country; that is, the immigrant has adapted to the lifestyle and cultural conditions of the host country. This includes the development of a basic proficiency in the language of the host country as well as a basic level of knowledge of native customs and values.

- Campus Services and Facilities

The expectations of international students change as the economy and globalised requirements change. They often have basic expectations of facilities and campus services. A study done by Ward and Masgoret (2004:22) says that international students expect to have necessary services and facilities available to them i.e. computing services, counseling, accommodation services, library services, international student office, student orientation services, sports and recreational facilities, health services, clubs and societies, financial advice services and student association to name a few.

- Classroom Diversity

It can be said that a diverse classroom of international students provides opportunities for learning about other cultures, values and viewpoints, and leads to a better democratic education. However, Brown and Dobbins (2004: 158) as cited in Morris (2004:31), find that "contexts in which stereotypes are salient may detrimentally affect the performance of students of colour as well as their expectations for their experience in the classroom".

- Staff Interaction

In a tertiary institution, developing a suitable environment where students are able to interact with their lecturers is imperative. It is also useful to appoint volunteers from senior students to be hosts of the new international students who enter the university Hellsten and Prescott (2004:32). Gundara (2000:25) argues that lecturers are responsible

for not only mentoring and teaching students from diverse cultural backgrounds but also have the responsibility to educate these students on how to live in a society of diverse cultures.

- **Campus Admin and Policies**

In the case of campus policies, Milem *et al.* (2005:17) said that an institution's commitment to diversity should permeate policy in all areas of institutional life.

Campus administration should encompass well-organized processes and diversity enriched systems to assist the enrollment of international students as well as the transfer of course credits as it was stated by Cubillo, Sanchez and Cervino (2006:11) that these processes are the first impression students acquire of the institution which often influences their expectations and attitude towards the institution upon arrival.

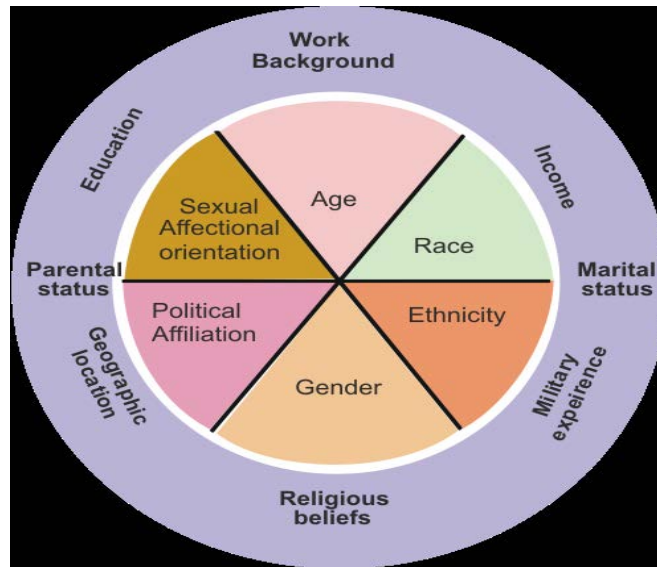
## **DIVERSITY MANAGEMENT**

South African universities are faced with a challenge of adapting educational and non-educational factors to the highly diverse population of international students. According to Cross (2004:392) in Higher Education settings diversity means, "Opening up the university to different people, all interested in studying at this university. It means that all staff should be able to meet the needs of each individual. It means accommodating as many people as possible with their differences. It means wishing to know about the other. It means different things to different institutions".

### **Important Dimensions of Diversity**

Diversity constitutes various individuals with subjective identities based on primary and secondary attributes. The challenge facing Higher Education Institutions is adapting the study environment to these various identities of students.

**Figure 3: Important Dimensions of Diversity**



Source: Human (2005:56)

According to Human (2005:57), the dimensions of diversity, as depicted in Figure 3, are as follows:

- Primary dimensions: age, gender, race, ethnicity, physical ability and gender orientation; and
- Secondary dimensions: education, religion, geographical location, income, work background etc.

The inner circle, as explained by Thomas (1996:78), illustrates the primary diversity dimensions which contain inborn variations which can barely be changed and have a continuous effect on the life of a person. Due to these core elements being closely linked to culture, people often shape their view of the world through these elements.

The outer circle represents the secondary diversity dimensions which may be obtained or altered throughout the lifetime of a person. These elements tend to have a less significant effect on a person's life. However, they still have an impact on how a person perceives the world.

These demographic factors of international students were sought to offer a basis for analysis of the main aspects of this study and to present their profiles.

## Purposes of Managing Diversity in Higher Education

Managing diversity can be a multidimensional management approach achieved by understanding the perceptions of diversity. However, it is essential for the purpose of this study to understand why diversity is so important at university and what benefits it creates for the international student. Eight reasons are offered by Thompson and Cuseo (2009:4):

1. “Diversity **expands worldliness**”. It is said that campus may be the first time one has the opportunity to have proper interaction with a diverse group of people.
2. “Diversity **enhances social development**”. In the event that an individual is given the chance to interact with various groups of people, it offers the opportunity to broaden one’s social horizons by expanding the pool of people with whom one can associate and develop relationships.
3. “Diversity **prepares students for future career success**”. Skills needed in today’s increasingly global market place can only be developed from college through exposure to widely diverse people, cultures, ideas and viewpoints.
4. “Diversity **prepares students for work in a global society**”. Many students support the fact that managing cultural diversity has a positive impact on intellectual and social skills, racial and ethnic diversity is also associated with growth in leadership skills, cultural awareness and cross-racial understanding.
5. “Interactions with people different from ourselves **increase our knowledge base**”. Experience and research have often indicated that people learn more from people who are different to them opposed to people who are similar.
6. “Diversity **promotes creative thinking**”. Having a multi-perspective mind has advantage. Diversity contributes to expanding one’s capacity for viewing problems or issues from multiple angles and vantage points.
7. “Diversity **enhances self-awareness**”. People with different experiences and backgrounds offer more to learn from and can sharpen one’s self-insight and self-knowledge by comparing and contrasting their backgrounds and life experiences with the experiences of others.
8. “Diversity **enriches the multiple perspectives** developed by a liberal arts education”. The power of a general education is magnified by diversity by contributing to the liberation of people. When a person moves beyond themselves, they are able to gain a



panoramic angle of the surrounding world and a more complete view of where and how they fit in.

### **Diversity at the University of KwaZulu-Natal**

South Africa has an extensive Higher Education sector of which UKZN is one of. It consists of, “21 Universities, 15 Universities of Technology, 50 Teacher Training Colleges and scores of Agricultural and Nursing Colleges” (UKZNTOUCH, 2010:5). In addition, there is a growing private tertiary sector, whose institutions range from Colleges to Universities. The research output generated by the 12 500 full time academics and a similar number of researchers working for research councils, institutes and companies, is the biggest in Africa - competing with the best in many developed countries.

UKZN is ranked as one of the top ten universities in South Africa. An independent project known as the Google College Rankings ranks universities and colleges around the world using Google. According to the Google College Rankings (2010), the University of KwaZulu-Natal ranks seventh in the country. According to the UKZN website, the university is committed to academic excellence and advances knowledge through globally competitive teaching, learning, scholarship, research, innovation and academic freedom. UKZN has nearly 400 000 students and is a truly South African university that reflects the diverse society in which it is situated. UKZN embraces internationalisation and diversity as a vital element of its goals and values.

### **University Goals**

According to the *University of KwaZulu-Natal Strategic Plan* (2007-2016: 12) the University will strive for African-Led Globalization by:

- Redesigning the curricula  
“Faculties and Schools will design their curricula to incorporate indigenous and local knowledge and knowledge systems as far as possible”.
- Promoting internationalization  
“The University will support carefully selected student exchange programmes that bring students from other countries to the University and further expand our students”

international opportunities, particularly exposure to Africa, to enrich the learning experience for all”.

- Forging strategic partnerships

“Strategic partnerships at the continental and global levels are critical in placing UKZN’s African scholarship in the wider international arena and in taking on some of the challenges of producing African scholarship”.

## **RESEARCH METHODOLOGY**

The objectives of this study was to identify the impediments regarding diversity experienced by international students at higher education institutions; assess the perceptions of international students regarding which of these impediments are the most predominant at UKZN and lastly, make recommendations accordingly to improve the perceptions and experiences of international students regarding diversity at UKZN.

In this study, the questionnaire survey was used making it impractical to question all 1920 international students in the population. Therefore, it was necessary to draw a sample. The researchers distributed questionnaires to the International Students Office at each of the five campuses making up UKZN. The Division of Management Information provided the researchers with an updated listing of enrolled international students at UKZN. International students were randomly chosen by the generation of random numbers to achieve the objectives of the study. They were then emailed and invited to participate in the study by picking up and returning the questionnaire from the International Students Office.

Statistical analysis: All statistical analysis has been conducted using SPSS version 15.0 (SPSS Inc., Chicago, Illinois, USA). For all statistical comparisons, the 5% significance level has been used.

## RESULTS

**Table 1: Dispatched Questionnaires by Campus and Received Responses**

Campus	Number distributed	Responses	%
Howard College	110	105	95
Edgewood	50	44	88
Westville	65	63	97
PMB	45	40	89
Medical School	30	28	93
<b>Total</b>	<b>300</b>	<b>280</b>	<b>93</b>

A total of 300 questionnaires were distributed, with 280 completed questionnaires returned. All questionnaires were unspoilt and adequate for analysis. The response rates were consistently high across all campuses of the University (88 – 97%).

**Table 2: Demographic profile of respondents**

Characteristics	International Students	
	Count	%
Gender:		
Male	152	54.3%
Female	128	45.7%
Age in years:		
17-19	40	14.3%
20-25	157	56.1%
26-30	52	18.6%
31-35	21	7.5%
>35	10	3.6%
Race group:		
African	156	55.7%
Indian/Asian	30	10.7%
White	70	25%
Other	24	8.6%
Level of Study:		
Undergraduate	130	46.4%
Honours	74	26.4%
Masters	53	18.9%
Doctorate	17	6.1%
Post-doctorate	6	2.1%
Is English your native language?		
Yes	138	49.3%
No	142	50.7%

The results reflect 54.3% of the respondents were male and 45.7% of the respondents were female. The majority of the respondents were under the age of 25 (70.4%). The majority of the respondents were African (55.7%) followed by White (25%) which was followed by Indian (10.7%). Lastly, the smallest number of respondents was of „other“ unspecified race groups (8.6%). Nearly half (46.4%) of the international students were pursuing their undergraduate education. Just over half (50.7%) of students were not first language English speakers.

**Table 3: International students’ views on diversity impediments at UKZN (n=280)**

Item	Disagree	Undecided	Agree
Unfamiliar language is used by lecturers	81.1%	1.4%	17.5%
Insufficient language courses available	61.8%	11.4%	26.8%
Assessment methods are unsuitable	64.3%	8.2%	27.5%
Group work is difficult	66%	4.3%	29.7%
Financial aid is not easily accessible	16.4%	25.7%	57.9%
University fees are less affordable than home	59.2%	5.5%	35.3%
Insufficient opportunities for casual work	6.7%	37.9%	55.4%
Hosts are inadequately prepared	16.1%	12.5%	71.4%
Insufficient accommodation available	27.5%	11.4%	61.1%
Residence is not a conducive learning environment	19.6%	50%	30.4%
Security in inadequate	69.7%	7.5%	22.8%
Computer laboratories are inadequate	75%	1.4%	23.6%
Limited opportunities for inter-racial activities	19%	10.3%	70.7%

## DISCUSSION AND RECOMMENDATIONS

The first objective of the study was to identify the challenges regarding diversity experienced by international students at higher education institutions which was achieved earlier in the paper. The findings of this study help identify the perceptions of key challenges that students face at one of the largest universities in the country, as well as highlights where these students are not dissatisfied. The anonymity of this survey, and the large number of international students in this study assisted in providing an accurate reflection of their experience. The second objective of the study was to assess the perceptions of international students regarding which of these challenges are the most predominant at UKZN. The predominant challenges identified by international students were:

- 1) The limited opportunity for inter-racial activities;
- 2) Difficulty in securing casual employment;
- 3) Poor accessibility of financial aid;
- 4) Insufficiency of accommodation; and
- 5) The perceived unpreparedness of host families.

Surprisingly, issues pertaining to pedagogical approaches, language difficulties and safety were not perceived as challenges by the majority of international students surveyed.

International students' debt can grow immensely due to increases in various education-related costs, higher tuition, and changes in the availability of financial aid. UKZN Central Students' Representative Council President (2009) Ms Bavelile Hlongwa as cited in the UKZNTOUCH Magazine by Maharaj (2010:22) believes Government should look at the possibility of freeing up funding from other State departments and diverting it to Higher Education Institutions. This is convergent with the results which indicate the majority of respondents agree that as an international student at UKZN, financial aid is not easily accessible.

Financial restrictions make it difficult for international students to earn money while studying and leave them with few feasible opportunities. According to Seow (2005:34) Australia allows international students to work up to 20 hours a week and almost all international students take advantage of this facility. Arambewela *et al.* (2009:11) found that a concern for students is the lack of opportunities to obtain a casual/ part-time job on campus. This study indicates a convergence as the majority of respondents agreed to there being insufficient opportunities to obtain part-time/casual jobs for international at UKZN.

Ward and Masgoret (2004:22) state that international students expect to have necessary services and facilities available to them such as accommodation. They go on to say that a clear expectation regarding campus residence should be created for these students as arriving in a foreign country with no accommodation is unacceptable. Further to this, Seow (2005:45) states that host families should receive training and prepare for international students as they play a vital role and influence in their lives. Failure to do so may result in low confidence levels of international students and may create the feeling of an unsupportive environment for them. The majority of international students at UKZN indicated insufficient accommodation and unpreparedness of host families as challenges at UKZN.

It was said when forming social networks in a foreign country with diverse races and cultures, international students may feel helpless (Kossek *et al*, 1996:123). Racial/ethnic student organizations provide students with opportunities for identity development, cross-cultural learning, and peer support. Social facilitates including unions and catering facilities, religious and sports clubs, and societies of special interest can accommodate international students from different cultures (Ward *et al*, 2004:12). It can be seen that 70.7% of respondents indicated limited opportunities for inter-racial interaction at UKZN.

The last objective of the study was to make recommendations accordingly to improve the perceptions and experiences of international students regarding diversity at UKZN which will now be addressed. The study is able to recommend that:

- One of the key reasons cited for the growing popularity of South Africa as an international student choice is the racial and cultural diversity of the country. It is therefore unacceptable that international students report dissatisfaction with the limited opportunity for inter-racial activities. In response to this, and in keeping with a broader socio-ethical imperative, universities must prioritize racial cohesion and inter-racial activity.
- The lack of opportunities for casual work may be viewed as symptomatic of the broader problem of unemployment and lack of employment opportunities facing South Africa at large. However, the unique financial vulnerabilities of international students do require that opportunities be created or that assistance be available to secure such opportunities. The possibility of extending graduate assistant opportunities to international students and of broadening casual employment at the university in a directed effort to help support these students must be pursued.
- Financial aid has been highlighted as a challenge to international students, especially to students from the SADC regions. While financial resources remain scarce for all students of higher education in South Africa, the increasing appeal of the country as a site for higher education necessitates some investigation into possible methods of assisting foreign students financially. Existing policies should also be clear on what kind of financial assistance foreign students can expect, and the minimum financial resources they should be required to have in order to live and study in South Africa.

- Issues pertaining to the availability of sufficient accommodation may also allude to the general difficulty of provision of accommodation to university students. This can be addressed by advising international students on the availability of accommodation before they arrive in South Africa, or by clearly outlining a reasonable expectation regarding the provision or assistance in securing accommodation. In addition, where institutions are involved in the use of host families, there exists an obligation on such institutions to ensure the adequate training and education of these households. The use of an objective measure for the acceptability and preparedness of such families must be in place, and exit interviews from hosted students may be used as a feedback mechanism.

The study has generated much needed local data on international students and the challenges they face at this host institution. Moreover, the study responds to the existing paucity of locally generated and relevant data. It is also reassuring that the study corroborates the findings of international studies on the subject, and alludes to the possibility of the application of their recommendations in this setting. This being said, this study remains exploratory, and it was not within the scope of this study to contribute to the theoretical framework on this subject.

While the study was limited to the University of KwaZulu-Natal, and findings may not be generalised to other institutions, the discussion and recommendations may serve to inform the international student offices of any higher education institution in the country. Further research could gainfully be directed towards exploring the views of international students at other Higher Education Institutions around KwaZulu-Natal and in the rest of the country.

## **CONCLUSION**

International students are becoming an increasingly significant group in the higher education community. While there are key fundamental characteristics which most students share, international students have been reported to face a number of unique challenges at host institutions and communities. The findings of this exploratory study corroborate that diversity management is essential to international students in higher education institutions. The main impediments identified in this higher education institution related to difficulties with social interaction across race/ethnicity; financial constraints; and difficulties in lifestyle adjustment.

These findings are consistent with the growing body of international literature on international students and the diversity impediments they face at host institutions, and will begin to address the paucity of locally generated and relevant information.

Efforts made for an effective implementation of diversity management should consider the views of people. Given the many global impediments facing international students, it is imperative that universities be much more fluent in communicating with and managing the expectations of these students in an intellectual and substantial manner. The information and recommendations of this study will be useful to UKZN on strengthening diversity management in certain areas that currently negatively affect international students. It will also be useful to all higher education institutions in accommodating and maximizing benefits for international students. The views of international students at UKZN suggest that diversity is an important issue in contemporary management and that there is still much work to be done in the way of changing perceptions, attitudes and behaviours before diversity can be effectively managed.

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**KNOWLEDGE MANAGEMENT: A STRATEGIC INTEGRATED MODEL  
FOR HUMAN RESOURCE MANAGEMENT AT HIGHER  
EDUCATIONAL INSTITUTIONS**

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## ABSTRACT

**Purpose:** This paper is an attempt to provide an overview of the challenges faced by higher education institutions (HEI's) in addressing the need to manage knowledge as a strategic organisational asset. The paper highlights the close relationship between strategic management, human resource management and knowledge management and the need for the integration of these disciplines to maximise the benefits of knowledge management initiatives in HEI's.

**Design/methodology/approach:** The paper identifies the challenges facing HEI's in the 21<sup>st</sup> century due to the major knowledge drain as a result of the ever increasing loss of skills through the exodus of qualified and skilled employees. This is followed by a brief literature overview of the key variables impacting on the paper. The paper culminates in devising an integrated model in supporting HEI's in the pursuit of HR related knowledge management strategies.

**Findings:** It is established that if knowledge management is given prominence and viewed as a strategic tool for management and human resource management, major benefits could be realised for the future success and competitiveness of HEI's.

**Originality/value:** This paper would be of significant value to HEI's wishing to implement knowledge management strategies within their HR Administration function. The proposed model could be tested, adapted and implemented to derive realistic benefits.

**Keywords:** Management, Human Resource Management, Knowledge Management, higher educational institutions, strategy

### 1 Introduction

An important objective of this paper is to develop a credible institutional mechanism in the form of a strategic model for the management of knowledge in higher educational institutions. The model proposes practical and coherent strategies that combine strategic management, strategic human resource management and knowledge management initiatives with particular reference to higher educational institutions. The variables and factors represented in the comprehensive model are derived from the outcome of the results of an empirical study conducted amongst higher educational institutions, literature review, examination of case studies and KM/HRM best practices.

The model acknowledges the continuing decline in skills and knowledge profiles in organizations due to the exodus of experienced professional employees from higher educational institutions. Serious concern is expressed in that the knowledge that they take with them far supersedes the knowledge that remain behind. This constitutes a significant brain drain as the employees who replace those severed from the higher educational institutions are generally lesser skilled, and without the requisite knowledge levels of their predecessors. This leads to a situation where organizations suffer a “knowledge paralysis”. A solution to the problem is to transfer knowledge from those who are highly knowledgeable and skilled to those who are lesser qualified relatively, but with the potential and the need to acquire such knowledge in the performance of their functions. Transfer of knowledge to a wider spectrum of employees will enhance the capability of the organization and lead to increased competitiveness. If individual knowledge can be converted to organizational knowledge, the circulatory knowledge from skilled and experienced employees to the younger and inexperienced will no doubt have a significant impact on the future of the organization.

Against the backdrop of the literature review and the outcome of an empirical study undertaken by the author, the investigation culminates in the formulation of a model that link knowledge management, human resource management, higher educational institutions and strategy. The model proposes an integrated knowledge and human resource management solution with strategic benefits for the purpose of making knowledge accessible amongst employees in higher educational institutions.

## **1.2 Challenges for HRM**

The 21<sup>st</sup> century heralds a new approach to human resource management where employees are regarded as investments that provide long-term rewards to the organization if effectively managed and developed (Carrell, Elbert & Hatfield, 2000:7). Knowledge is a factor of production with a value greater than land, labour or capital. It is therefore the responsibility of human resource management to capture intellectual capital, codify it and transfer it to the other employees in need of such knowledge. It is considered as:

*“HR’s challenge to provide a blue-print of how to put knowledge to work as a source of competitive advantage”* (Davenport & Prusak, 1998:24).

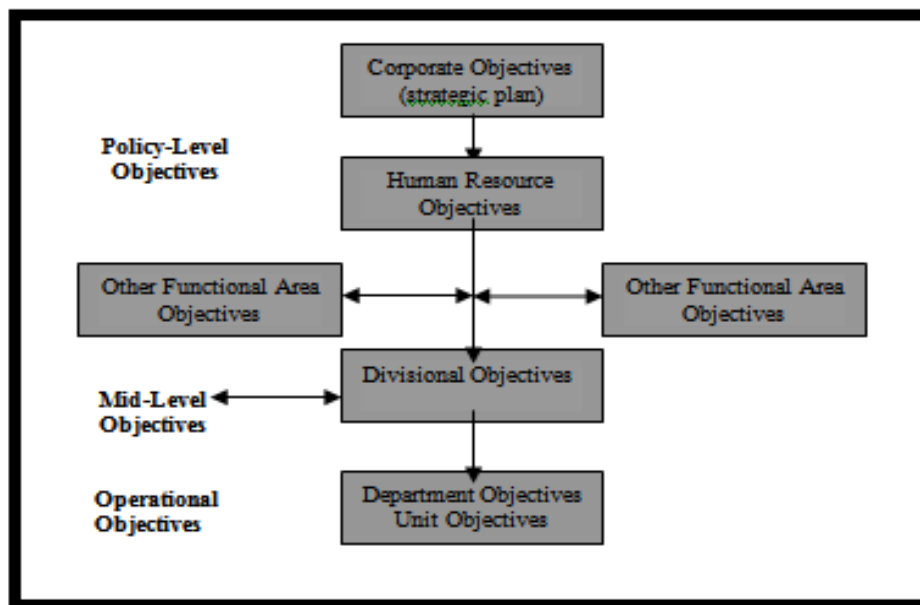
In order to address these challenges, it is important to review the role of human resource management in managing knowledge as a strategic asset. Human resource management should create mechanisms that lever its knowledge assets for the benefit of the organization.

### 1.3 The strategic alignment of HRM

Human resource managers need to play new and innovative roles due to the dramatic changes in the internal and external environments. In order to be successful, HRM professionals must link their objectives, policies, systems and practices with the strategic objectives of the organization (Martell & Carroll, 1995: 253).

Figure 1.1 illustrates the integration of the human resource and other functional area objectives with the corporate objectives of the organization.

**Figure 1.1: Integration of human resource objectives**



Source: Anthony, Perrewe & Kacmar, 1999: 141

Ackerman (1989) posits the view that those organizations that align its core functions with the corporate strategies derive the following distinctive benefits:

- Contribute to the survival and goal accomplishment of the organization;
- Support the implementation of the corporate and business strategies of the organization;
- Create and maintain the competitiveness of the organization;
- Enjoy representation at top management level and participate in strategic planning and influence the strategic direction of the organization; and
- Foster co-operation between the human resource department and line managers.

Skyrme (2008:1) claims that there is a significant relationship between corporate strategies, employees and the knowledge of the employees. Despite rating employees as the organization's greatest asset in official records, it is the cost on the profit and loss account that attracts greater attention. Employees are most often regarded as a cost to cut when the times get tough.

#### **1.4 Background to the development of the model**

The proposed model endeavours to expound a set of basic points of departure within the framework of higher educational institutions. The model could be utilized for the enhancement, adjustment or replacement of existing models or systems currently in place in HR departments in HEI's relating to HRM/KM integrated practices. The model could be used as a guide to the executive management at higher educational institutions to serve as a control measure whereby the integrated human resource management and knowledge management outputs could be evaluated.

The approaches linked to the integrated model could assist to maintain and enhance the corporate strategy and the mission statement of the higher educational institutions. Simultaneously it could serve as a motivation for the executive management and the human resource management to ensure that the KM/HRM/HEI integrated model will contribute to the realization of the provisions of the institutions strategic plan on a continual basis.



In order to create models of efficiency and effectiveness for KM/HRM integrated systems, it is appropriate to evaluate the capabilities of existing employees at higher educational institutions.

#### **1.4.1 Development of the strategic integrated model**

Majority of employees at higher educational institutions have permanent appointments. This type of employment contract could result in employees' expectations of a lifelong employment contract with the institution. Those employees who have scarce skills tend to be attracted to competitors whilst employees whose skills are not in much demand remain in the organization. This situation is exacerbated by the exodus of quality employees to other countries due to a multitude of reasons as cited in the Work in Life (WIL) Survey of 2002.

According to the Work in Life (WIL) Survey conducted by Sunday Times newspaper in 2002, seventy two percent of the readers responded that they would consider emigrating from South Africa. As the respondents came from a well-educated and high earning background, the potential brain drain would no doubt result in a loss of critical skills and knowledge (Lee, 2004: 3). Higher educational institutions suffer similar experiences in competing for scarce resources in a market which has a high unemployment rate and a huge shortage of skilled employees.

From the state level in South Africa, executive mandates through the office of the former Minister of Education, Professor Kader Asmal to higher educational institutions have led to the mergers of like institutions within the region, leading to reduced operating costs, circumventing the duplication of services and enhancing cost effectiveness and service delivery. This has forced institutions to re-examine their internal business methods and develop strategic plans as a commitment to transforming and enhancing service levels in the re-configured higher educational institutions. Senior management has therefore demonstrated their commitment to enhancing the quality of institution-wide service delivery.

However, as higher educational institutions respond to the ever-increasing pressures to improve performance and reduce costs, managers turn to their support staff for results which are most often beyond their capabilities as they have neither received the training nor have the desired

knowledge to be able to deliver quality services. This position is accentuated by the World Competitiveness Yearbook results of 2007 where South Africa ranked 50<sup>th</sup> out of the 55 countries surveyed in the human resource development category (IMD World Competitiveness Yearbook, 2007). The IMD has issued a stern warning to those nations that are losing ground, such as South Africa, in stating that:

***“these nations will, sooner or later, lose their standing in world competitiveness if they do not improve their overall performance”*** (IMD World Competitiveness Report, 2007).

It is, therefore, a priority for senior management in higher educational institutions to recognize the perceived deficiencies and manage the process of integrating knowledge management initiatives with human resource management as a step towards addressing the problem. Failure to do so could have a detrimental effect on institutions in terms of service delivery as well as its image.

The model in Figure 1.2 enshrines the most important variables that impact on the integrated model. The model stresses the point that if higher educational institutions are to function successfully, senior management must acknowledge the relationship between corporate objectives and human resource management objectives.

Rothwell & Kazanas (1988:15) claim that this relationship does not exist in all circumstances for the following reasons:

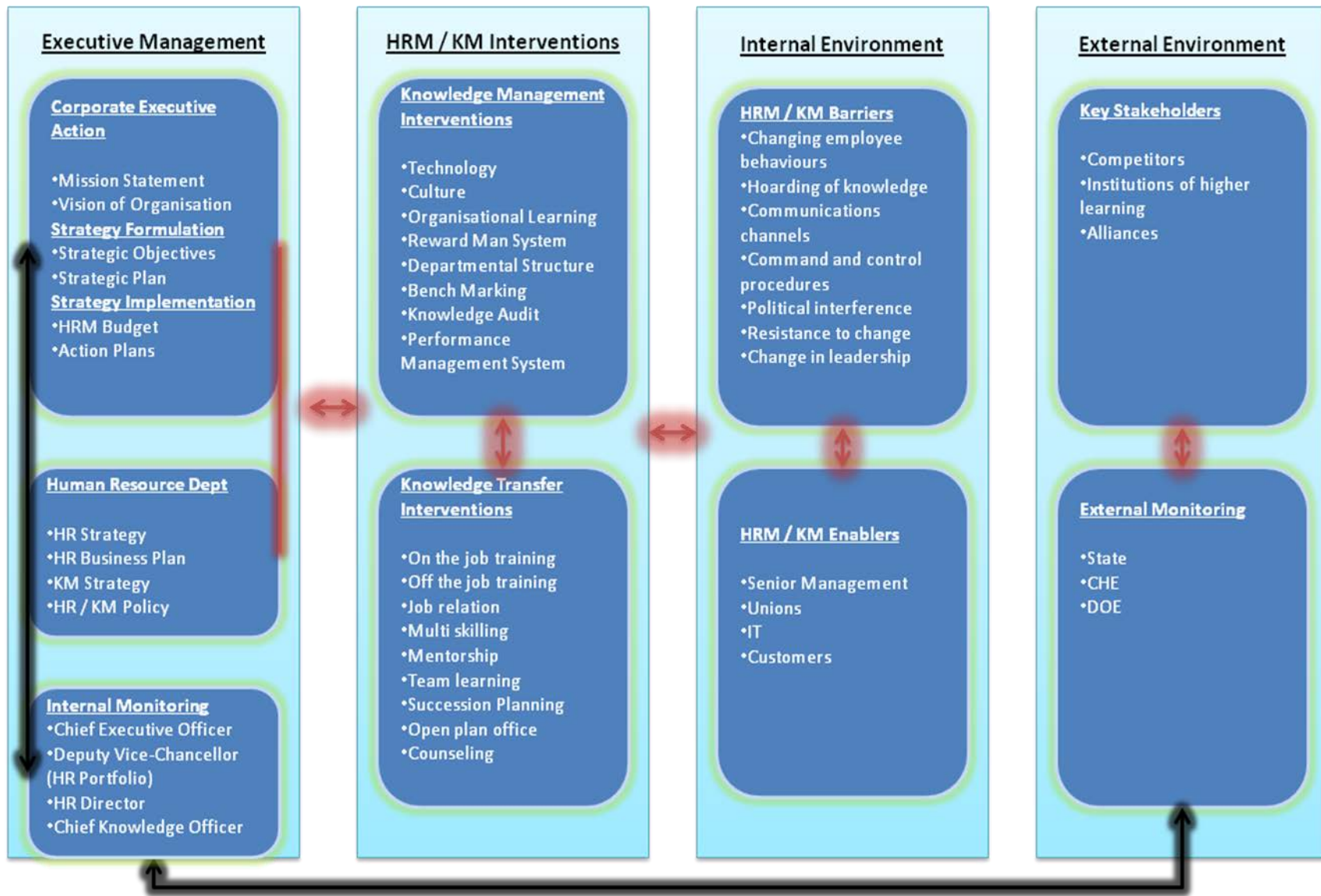
- Senior managers do not see the need for this relationship;
- Human resource information is not compatible with other information used in strategy formulation; and
- Senior management and human resource management are in conflict between human resource short term and long term objectives.

As a means of addressing the shortcomings identified, Figure 1.2 expresses the importance for the human resource management objectives of the organization to be linked to the various sub-objectives of the broad functional areas that report to the human resource department such as the

human resource administration, human resource development, industrial relations and human resource information systems functionalities. The relationship between the strategic objectives of corporate management, human resource management and the sub-objectives of the functionalities of the human resource department will enable these objectives to operate sequentially and holistically.

The model represented in Figure 1.2 emphasizes the importance of developing a relationship between senior management and human resource management in order for the model to be effective. The model strives to create a link between corporate strategies, human resource management strategies and its integration with knowledge management with the primary objective of improving overall organizational performance.

Fig 1.2 Model of an Integrated Knowledge Management / HRM Strategy



### **1.4.2 Description of the strategic integrated model**

The model in Figure 1.2 reflects broad categories and these are represented in frames. The arrows point out the link between the broad category and the elements within the category as well as the linkage between categories and the elements within the respective categories. The main category frames impacting on the integrated HR/KM strategic model are as follows:

- Executive management;
- Human resource/knowledge management interventions;
- Internal environment; and
- External environment

The important features reflected within each broad category frame represent the core elements of the model with each element labeled with a sub-heading. The relationship between the broad categories and within and between elements is illustrated by arrows.

### **1.4.3 Executive management at higher educational institutions (HEI's)**

According to Kroon (1994:13) strategic management is usually conducted by executive management comprising of the board of directors, the chief executive officer, and other senior managers who together make up the management committee. According to Oosthuizen (1981:39) the executive management of higher educational institutions rests with the management committee, the membership of which shall include the Vice-Chancellor, the Deputy Vice Chancellor/s, the Registrars, and other senior office bearers in the administration that are co-opted to the management committee.

#### **1.4.3.1 Vision and mission statement**

The first element under executive management is the institution's vision and mission statement. The vision statement outlines the goals of the organization. It succinctly describes the direction

that the institution wishes to pursue. The time frame for a vision statement is five years during which period a review should be conducted (Schultz *et al*, 2003:251).

The formulation of the mission of the organization is the responsibility of executive management. The mission determines the reason for the existence of the organization. It is future-orientated and defines the organization's service industry, its market, and management philosophy (Pearce & Robinson, 1985:79).

According to Nel *et al.*, (2004:524) the mission statement encapsulates a general plan on how the organization intends achieving its goals and objectives. There is also a close relationship between the mission of the organization and its culture.

#### **1.4.3.2 Management strategy and corporate culture**

Mitchell (1990:56) is of the view that management strategy and corporate culture are closely related. The culture of the organization and corporate strategy are mutually inter-dependant. New management brings new cultures, and new cultures breed new strategies. Often personalities clash with culture and this must be managed with great sensitivity. During horizontal mergers, culture clashes lead to major failure. Two different philosophies collide with one insisting that the other conform. As a result, the combined merged organization tends to suffer huge losses. It is therefore recommended that during mergers, individual organizations commit to creating an entirely new organization with a combined culture building on the strengths of the former organizations. Senior management must therefore be cognizant of the dynamics of the strategy/culture relationship in organizations.

#### **1.4.4 Strategy formulation**

Strategy formulation refers to long term planning by the top management. Anthony *et al.*, (1999:10) define strategy as:

*“the formulation of organizational missions, goals, and objectives, as well as action plans for achievement, which explicitly recognize the competition and the impact of outside environmental forces”.*

Strategy formulation is a dynamic process where action sometimes dictates the strategy to follow and vice versa. It is subject to change depending on the environmental factors, competition or internal politics. Nel *et al.*, (2004:527) posit that the mission statement of an organization should ideally encapsulate the following elements.

#### **1.4.4.1 Goals and objectives**

Goals are a desired result that an organization strives for. It is part of the mission of the organization and not finitely defined. Goals guide groups and individual employees to achieve the maximum output with the least input. Therefore goals direct performance or results. Whilst goals are long term, objectives are short term performance targets. Objectives are based on the goals of the organization and contribute to the attainment of the goals. Objectives are normally deadline date driven for the attainment of results (Kroon, 1994:149).

#### **1.4.4.2 The strategic planning process**

According to Quin (1980:7) the strategic planning process involves the integration of an organization’s major goals, policies, and action sequences into a cohesive whole. Higgins & Vincze (1989) cited in Greer (2001:125) concurs with this definition and adds that the strategic planning process generally adopted the following steps:

- Development of a mission statement;
- Environmental scanning;
- Analysis of strengths, weaknesses, opportunities, and threats (SWOT analysis);
- Formulation of strategic objectives;
- Alternative strategies for achieving objectives; and
- Selection of strategies after due evaluation.

The framework of the integrated model, presented in Figure 1.2 begins with the organizational mission statement with a view to guiding managerial decision-making. According to Greer, 2001:xv) the organization“s mission, strategy and goals:

***“provides a rational, financially justifiable basis for analyzing the value of alternative human resource strategies, policies, and practices”.***

In order to meet the challenges of improving service delivery at higher educational institutions, it is necessary to conduct an evaluation of the human resources department.

#### **1.4.5 Strategic human resource management**

Strategic human resource management activities focus on a variety of people related activities that are linked to business strategy. Strategic human resource management oversees all functional areas in the organization and is fully integrated with all of its components. The human resource management portfolio is led and coordinated by a member of the executive management (Erasmus & Grobler, 1993). The human resource management portfolio in the higher educational institutions surveyed is led by a Deputy Vice-Chancellor, an Executive Director or a Registrar depending on the executive management structure of each institution.

Whilst people management in the past was a sole responsibility of the human resource function, the 21<sup>st</sup> century organizations view people management as every manager“s responsibility irrespective of the departments that they service. Therefore managers need to acquire complementary competencies to deal with the complex human resource management issues (Caron, 2006:33-34). This view is further accentuated by the White Paper on Human Resource Management (1997), in that managerial responsibilities to manage human resources within departments should be delegated to line managers.

Anthony *et al.*, (2007:18) state that strategic human resource management differs with traditional human resource management and entails the following distinct areas of responsibilities:

- Participate in the formulation of the organization“s strategic plan and align HR functions with the plan;



- Integrates with all line managers and employees;
- Involved in making strategic decisions;
- Integrates with other organizational functions; and
- Coordinates all HRM activities.

As advocated by Caron (2006:33-34), Anthony *et al.*, (2007:18) and the White Paper on Human Resource Management (1997) there is a need for a shift of the HR focus in higher educational institutions to realign its human resource processes, policies and functions with the organizations strategic agenda.

#### **1.4.6 Evaluation of the human resource function**

According to Cashman & McElroy (1991:70-73) a study at the University of Iowa revealed that approximately one-third of the organizations in their survey seldom or never conduct evaluations of their human resource departments. Another one-third indicated that they conduct human resource reviews at least annually, whilst the final one-third fell somewhere in the middle. The main reason cited for not evaluating the human resource function is due to the difficulty in conducting a scientific evaluation for quantifying the human resource function. However, those that conducted evaluations indicated that they used a more judgmental and qualitative process rather than a quantitative or scientific process. It was also established in the survey that the majority of the institutions which had a system of evaluation, actually evaluated the human resource function internally within the human resources department. The results of the survey revealed that the evaluation was not conducted properly, and consequently the informal information gathered was insufficient to determine the actual level of service rendered by the human resource function.

It is therefore concluded that procedures must exist to determine the quality of service rendered by the human resource staff functionary. A human resource audit is an important tool to evaluate service levels as well as the effectiveness of policies, programmes and practices in the human resource department.

#### **1.4.6.1 Human resource audit**

Human resource audit is one method of assessing the effectiveness and efficiency of human resource employees in terms of servicing the human resource needs of the organization. This process also helps the organization to analyze the effectiveness of its human resources policies and practices and to determine whether changes or improvements are necessary (Mathis & Jackson, 1988:599).

According to Seagal &Quin (1989:67) a human resource audit becomes necessary when management perceives that human resource programmes and policies are not meeting the goals of the organization. For a human resource audit to be effective, the organization must determine what it seeks to achieve by performing it. This process will determine who is to perform the audit and the methods to be followed in conducting it. The audit team could comprise in-house employees in view of their familiarity with the organization. However, the disadvantage is that they may perpetuate past errors. Engaging an external consultant may yield innovative solutions to the project. However the obligation is on senior management to decide which option best meets its needs.

Anthony *et al.*, (1999:100-101) aver that the human resource audit involves collecting data through a number of methods such as observations, surveys, questionnaires and computer data reviews. The audit techniques are used to gather information and benchmark these to some expected or predicted outcome. The idea of the audit process is to evaluate the various knowledge management/human resource related programmes to determine its effectiveness in relation to the corporate and human resource strategies.

Once the service levels and the KM/HR programmes and policies are evaluated it is important to determine where these policies are to be implemented. It is therefore necessary to conduct a knowledge needs analysis to provide a map of the level of knowledge, skills and abilities of employees within the organization.

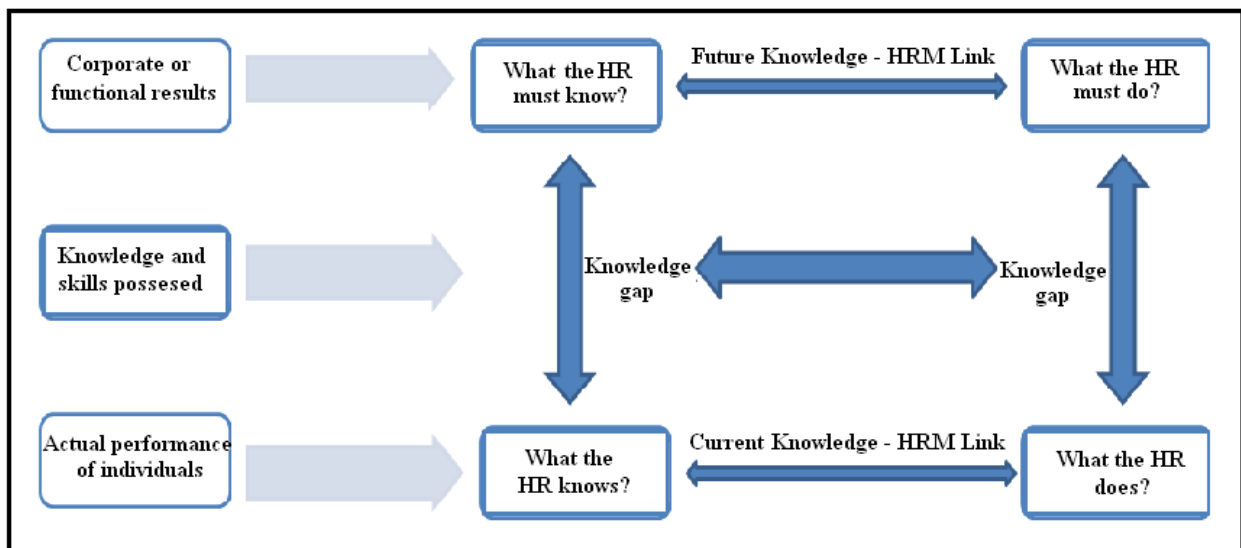
### 1.4.6.2 Knowledge needs analysis

According to Mills, Pace & Peterson (1988:5) cited in Meyer (2002:115), analysis is defined as:

*“the act and process of separating any material or abstract entity into its constituent elements, which involves determining its essential features and their relations to one another”.*

In the context of knowledge management, a knowledge gap is the difference between what knowledge employees possess, and the knowledge that is required in order for the employees to perform their functions optimally. Figure 1.3 illustrates this knowledge gap approach.

**Figure 1.3 Knowledge Gap**



**Source: Adapted from Gottshalk (2005:76)**

A need should ideally be identified as the essential knowledge, skills and abilities that an employee must acquire in order to perform duties competently to accomplish desired results. A knowledge needs analysis therefore is a process of identifying an issue or a problem, through the collection, analysis, and interpretation of data; and using the information obtained to select or design appropriate knowledge management/human resource interventions to address the issue or problem (Meyer, 2002:115).

Once the knowledge needs analysis is conducted by the human resources department, the actual knowledge level of all employees in the organization will have been established. According to Kao (1996), such internal knowledge audits ought to be conducted by organizations to remain or become competitive. The desired knowledge of each job category could be ascertained from the job analysis and the job description. The difference between „what is“, and „what should be“ (Figure 1.3) will constitute knowledge gaps. Before the selection and design of knowledge sharing/transfer strategies to address the identified knowledge gaps, it is important to undertake a knowledge competency analysis to determine the actual knowledge required by an employee to be able to render a task competently.

#### **1.4.6.3 Knowledge competency analysis**

A knowledge competency analysis involves an in-depth analysis of the knowledge necessary to be able to perform each of the tasks associated with a job. Mager (1988:41) advocates that when considering such analysis, it is necessary to commit in writing the knowledge that the employee would require in order to perform a task. This knowledge list constitutes the areas in which knowledge interventions need to be designed and implemented. This list could also be categorized into pre-requisite knowledge, and requisite knowledge. Meyer (2002:127) posits that pre-requisite knowledge must be acquired before implementing interventions to address acquisition of requisite knowledge. This could be achieved by creating a knowledge hierarchy which clearly highlights pre-requisite knowledge. According to Rothwell & Kazanas (1992: 129-130) cited in Meyer, one method to identify knowledge needs is to repeatedly enquire of each task and sub-task “**what does the learner need to know to do that?**” The responses could then be represented in a flowchart so that successors to the tasks could use it as a knowledge map.

Tiwana (2002:97) suggests that a knowledge analysis should be conducted by a multidisciplinary group of people representative of the key functional areas as follows:

- Senior management: to link the knowledge needs to the business and corporate strategy;
- Finance: to attach financial value to the knowledge assets;

- Human resource manager: to articulate the importance of employee knowledge and knowledge distribution within the organization;
- Information systems/Information technology expert: to mobilize the technology implementation aspects of knowledge management strategy; and
- Knowledge manager: to integrate inputs from the various participants of the knowledge audit team for implementation.

Having established the knowledge gaps and the pre-requisite and requisite knowledge needs hierarchy in the organization, the next phase of the developmental model is to determine some of the causes of the knowledge deficiencies.

#### **1.4.6.4 Knowledge gap cause analysis**

This step in the model (Figure 1.2) focuses on the identification of some of the causes of knowledge deficiencies in organizations. It is important that executive management identifies these causes and addresses such impediments to ensure the success of the knowledge empowerment strategies. Some of the causes could include the following factors.

##### **a) Organizational Culture**

The challenge for management is to align the culture with the strategic direction of the organization. Culture could be a major obstacle and contributor to knowledge gaps in organizations. According to Beer, Eisenstat & Spector (1990), outstanding results could be achieved when employees share common beliefs and subscribe to common norms of behaviour. Tobin (1998:33) is of the view that organizational culture could act as a barrier to sharing knowledge between and amongst employees. When organizational culture promotes a competitive “**winner-take-all mentality**” employees are encouraged to hoard knowledge so that they have an edge over others in competing for rewards. In addition, organizations tend to discourage the use of external knowledge. The “**not invented here**” myopic vision of management prevents employees from seeking external knowledge to solve organizational

problems. Hence benchmarking human resource management practices against leading organizations is prevented in the process.

### **b) Organizational and departmental structures**

Closely linked to organizational culture are organizational and departmental structures. Poorly designed structures could stem and prevent the flow of knowledge amongst employees both vertically and horizontally. According to Walker (1992:134)

*“organizational structure accommodates and nurtures informal relationships and networks that provide for effective information flow and influence”.*

Flexible structures empower employees to act and nurture teamwork. Flexible structures encourage communication flow and cooperation amongst employees bringing about a highly motivated teamwork, improved response and turnaround time, and a **“turned-on work force”**. Therefore flexible structures foster networks of relationships so necessary in a knowledge economy. Although formal hierarchies exist in flexible structures, the work gets done because employees interact in teams and work directly with each other. Flexible structures are flat, lean and fluid. Knowledge flows freely amongst employees in flexible organizations, supported by direct access to information systems (Walker, 1992:134)

### **c) Implementation barriers**

Fahey & Prusak (2000) have identified several implementation errors, and state that if these are not managed and corrected, genuine knowledge could be prevented from being developed or leveraged. They rate these errors as the **“deadliest sins of knowledge management”**. Fahey & Prusak (2000) suggest that the following factors could have implications for human resource management if not clarified or addressed:

- **Working definition of knowledge:** Human resource management (HRM) must differentiate between data, information and knowledge. It is therefore important for human resource

departments at higher educational institutions to develop a working definition of knowledge so that employees could identify with this phenomenon.

- **Knowledge flow:** Knowledge is dynamic and is in constant flux and change. Therefore knowledge must be adjusted with the latest updates to ensure that it remains current.
- **Tacit knowledge:** The role of tacit knowledge is downplayed in organizations. Tacit knowledge plays a crucial role in influencing explicit knowledge. Therefore interventions to facilitate the transfer of tacit knowledge to other employees or devise methods to capture such knowledge must be sought.
- **Focus knowledge on future:** Knowledge generation and its use is a never ending cycle. Management tends to focus knowledge on the past and the present but fail to exploit it for future benefit. The purpose of knowledge is to inform and influence decision-making and therefore must be future orientated.
- **Encourage experimentation:** Encouraging employees to do things differently have significant benefits for the organization. A new and innovative approach to the interpretation of data and information, and initiation of pilot projects leads to the creation of new knowledge.

#### 1.4.6.5 Technology

Computer technology is a useful human resource management enabling tool to facilitate knowledge management initiatives. The results of the empirical study have confirmed that higher educational institutions are capitalizing on the benefits of computer technology as a means to improved decision making, reduced turn-around time, improved administrative services, and reduced costs. In this regard it is important for human resource management to work with the information technology department to determine how best to optimally utilize this resource to organize, store, share and retrieve organizational knowledge.

According to Alavi & Leidner (2001), empirical studies have confirmed that whilst organizations create knowledge, such acquired knowledge is forgotten over a period of time. Therefore existing knowledge assets have to be committed to organizational memory via knowledge repositories. Computer technology is an effective tool in enhancing organizational memory and accessing it whenever the need arises. Gottschalk (2005) views groupwise as a useful intra-organizational memory tool to share both structured and unstructured knowledge across time and space.

The knowledge transfer strategies links to strategic knowledge management illustrated by way of the downward two-way flow line arrow in Figure 1.2.

### **1.5 Knowledge transfer/knowledge sharing strategies**

Sufficient attention has been given to knowledge management strategies arising from the literature review undertaken. However, the success of such strategies will depend on the knowledge transfer/knowledge sharing mechanisms that are implemented in the institutions. Knowledge transfer is a systematic process to capture, collect and share tacit knowledge in order for it to become explicit knowledge (<http://www.pao.gov.ab.ca/>).

For knowledge transfer strategies to become effective, the strategic model recommends that higher educational institutions create a knowledge transfer/knowledge sharing directory to assist all employees in choosing knowledge transfer/sharing methods that are most appropriate for their circumstances.

Several knowledge transfer and knowledge sharing interventions have been identified that support knowledge management strategies. Some of these interventions include:

- **Mentorship programmes:** employees who are on the verge of retirement could be appointed as mentors to those employees who are inexperienced. Mentoring programmes could also create communities of practice to facilitate knowledge transfer amongst employees (Kim & Lee, 2006).



- **People, culture and technology:** these are important factors for successful knowledge transfer/sharing. People need to change their attitude to knowledge management. This could be achieved by including knowledge sharing as a generic function in all employees' job description. The organizational culture should encourage direct and open communication amongst employees. The culture should promote commitment to the organizations success through knowledge sharing. Knowledge sharing and transfer must be supported by up-to-date technology so that knowledge resources are captured, stored and accessed as and when the need arises (Sydanmaanlakka, 2002:154).
- **Communities of practice:** the acknowledgement of people as creators of knowledge has led to the realization that knowledge lies less in databases and more in people. Therefore, organizations are recognizing the value of informal networking where employees informally share experiences and expertise. These informal groups are labeled "communities of practice (Ward & Peppard, 2002).

The literature review has confirmed that organizations, in their attempts to implement knowledge transfer and knowledge sharing interventions encounter obstacles which are counterproductive to knowledge management.

## 1.6 Barriers to knowledge management

Some of the common cited barriers to knowledge management that have been identified are as follows:

- **Cultural barriers:** This is recognized as a major barrier to knowledge management. The culture and sub-cultures influences the relationship between individual and organizational knowledge. The culture determines the ease in knowledge creation, knowledge sharing and knowledge transfer, the context for social interaction, and how to overcome knowledge hoarding behavior (Long & Fahey, 2000). In this regard, Sonnenberg (1994) states that organizations should create a culture of trust, openness and teamwork amongst employees.

People who trust each other will share knowledge freely and will co-operate in a team situation.

- **Political influence:** The attitude of “knowledge is power” gives employees political influence and promotes employees to work in silos. Consequently, employees hoard personal knowledge and are averse to knowledge sharing and learning new knowledge (Ahmed *et al.*, 2002:64).
- **Communication channels:** For knowledge management to work, the communication channels between employer and employees and between employees and employees must be frequent and effective. Communication should be encouraged and take various forms in addition to technology such as bulletin boards, policy documents and newsletters (Fuchs *et al.*, 2000). Newell *et al.*, (2002) state that contemporary organizational structures lead to semi-autonomous business units, cross-functional project teams, inter-organizational networking and globalization of the organization.

## 1.7 Monitoring and evaluation

The monitoring and evaluation phase is intended to identify any deficiencies or gaps in the proposed model. If any deficiencies are identified, corrective action or amendment to the model could be made.

In Figure 1.2, the two independent and distinct components indicate the importance of monitoring mechanisms. The “internal monitoring” component is reflected as a responsibility of the “strategic human resource management” component. The “strategic human resource management” component is accountable to the “strategic management” component.

Provided proper control mechanisms are in place, well formulated mission and vision statements will ensure the successful implementation of the proposed model. In terms of the scope of this paper, and the strategic model, it is important to establish an internal monitoring body to oversee

the implementation of the model. This initiative involves the process of establishing an internal monitoring process.

### **1.7.1 Internal monitoring process**

The model (Figure 1.2) shows the reporting of the internal monitoring process to the human resource management function under the leadership of the executive HR Director/Manager. The internal monitoring body evaluates feedback reports and monitors the implementation of HR/KM programmes, policies and practices. The ongoing feedback provided by respective HR line managers identifies gaps and shortcomings. This may require revising or realigning the HR strategy/integrated HR/KM programmes, policies and practices with the organization's strategy.

This is illustrated in Figure 1.2 by the linkage from the internal monitoring component with the human resource management component and in turn, joining with the strategic management component. The control is vested in the office of the executive manager responsible for the HR function who is the custodian of the human resource management policy implementation. The composition of the internal monitoring committee is envisaged to include:

- Executive manager responsible for the HR function in the HEI;
- Executive Director: HR function in the HEI;
- Human resources information systems manager;
- Chief knowledge officer;
- Institutional forum representative; and
- Trade union participation.

It is proposed that the chairperson of the internal monitoring committee should be the executive manager and the vice-chair should be the executive Director of HR. Senior management representation is important to indicate commitment at that level. Commitment is also demonstrated by the provision of the necessary budget for the effective implementation of the proposed integrated model as reflected in Figure 1.2. This is articulated in the corporate executive action and strategy implementation plan.

The responsibilities of the internal monitoring committee should incorporate several strategic functions which include, but not limited to:

- Review KM/HR strategies, policies, procedures, programmes effectively and timeously after the feedback and internal monitoring process;
- Network with members of the external monitoring stakeholders to ensure that legislative and state mandates are consistent with the human resource strategy and corporate strategy;
- Network with allied external organizations to benchmark KM/HR integrated policy interventions against industry best practices; and
- Liaise closely with the chief knowledge officer and human resource information systems manager to ensure that targets set in respect of KM/HR integrated objectives are achieved.

Communication amongst all stakeholders, including human resource employees at the operational levels must be maintained to ensure that information is accessible. The inclusion of trade union and institutional forum representation to the internal monitoring committee will create a climate of trust between the respective constituencies within the organization.

The evaluation and management of the integrated KM/HR strategy implementation is the responsibility of the internal monitoring committee. Reviews must be conducted on a quarterly basis. The evaluation reviews should consider feedback from the internal and external monitoring process.

### **1.7.2 External monitoring process**

External monitoring is as important as the internal evaluation process. Ramphele cited in the Daily News (Forde, 2009:2) expresses concern at the poor quality of education in South Africa by stating that:

***“If you frame your national ambition as a vision to greatness, then everything else follows. You are not going to be satisfied with third-class education. We are where we are because we have lowered our ambition about what it is that we can achieve as a nation”.***

Ramphela is emphatic that it is the responsibility of the government to provide the necessary leadership and make education in South Africa a national vision and a key focus area.

Although higher educational institutions in South Africa are autonomous, they are still subject to and accountable to the State. Higher educational institutions are partially funded by the government and report to the Ministry of higher education through the Department of Education (DoE).

The government has made it clear in its transformation agenda of the higher education sector that it seeks blue print strategies and mechanisms for the achievement of its strategic goals. Some of the goals that it identified in the National Plan for Higher Education (NPHE) include human resource capacity development and knowledge production, acquisition and application. It entrusts this responsibility to higher educational institutions to integrate the identified goals with the needs of industry (<http://www.polity.org.za/govdocs/pr>).

In the absence of clear guidelines on the level of control from the external environment, it is envisaged that the important stakeholders will comprise of the following:

- Council on Higher Education South Africa (HESA)-formally South African Universities Vice-Chancellors“ association (SAUVCA)
- Department of Education (DoE)
- Higher educational institutions (national)
- Higher educational institutions (international)
- Knowledge management/human resource management best practice organizations
- Trade unions

It is assumed that composition of the external monitoring committee with members representing the relevant external stakeholders will be an effective and legitimate body. The aims and duties of

the committee could be similar to those identified for the internal monitoring committee. Its role is regarded as critical for the evaluation of the implementation of the model and the review of knowledge management initiatives in the human resource department.

## **1.8 Conclusion**

This paper articulated the relationship between strategic management, strategic human resource management and knowledge management at higher educational institutions. The proposed strategic model reflect an application of the key elements and variables that were derived from the review of results of the empirical study, a literature review, examination of case studies and KM/HRM best practices.

The model identifies some important characteristics of knowledge management and human resource management and places emphasis in knowledge assets as a strategic resource for higher educational institutions. Based on the outcome of the paper, potential benefits to the implementation of knowledge management practices in human resource management at higher educational institutions were identified. Although knowledge as a strategic resource is difficult to manage, the integrated model argues that if the proposed steps in the model are implemented, this situation could be turned around. A careful selection of knowledge transfer mechanisms will help realize immense benefits for human resource management and the higher educational institutions as a whole. The integrative model provides a useful framework for higher educational institutions in their quest to manage knowledge resources. Arising from the outcomes of the empirical study, it is likely that the application of the model will pose challenges and identify gaps that will need to be addressed.

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# **SOUTH AFRICA'S BRAIN GAIN: INFLOWS OF ACADEMIC EXPATRIATES**

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**Keywords:** Globalisation, Brain Drain, Expatriate Academics, Patterns of Inflow.

# **SOUTH AFRICA’S BRAIN GAIN: INFLOWS OF ACADEMIC EXPATRIATES**

## **ABSTRACT**

As the globalisation of the world economy continues unabated, a parallel growth of globalization of knowledge is also taking place. This paper looks at the impact of the phenomenon of “brain gain” on higher education within the context of South Africa. It focuses on one particular manifestation of this phenomenon namely the inflow of foreign academics into the higher education institutions of South Africa. This paper seeks to assess the extent to which Higher Education in South Africa has been internationalized by examining the trends of foreign academic inflow into South African Higher education systems I have changed abstract

## **Introduction**

This paper considers the complex relationship between the internationalization and academic mobility in South Africa. Since the end of the apartheid era in South Africa, “internationalization” of higher education has been a popular theme as the country takes its place as a regional leader in education and research in sub-Saharan Africa. Globalisation is defined by Albacht, Reisburg and Rumbley (2009:2) as *“the reality shaped by an increasingly integrated world economy, new information and communications technology (ICT), the emergence of an international knowledge network, the role of the English language and other forces beyond the control of academic institutions”*. Internationalisation is the response to globalisation as it involves the variety of responses in terms of policies and programmes universities and governments put into place to deal with the phenomenon. This paper seeks to investigate the phenomenon of academic mobility in South African higher education as a response to internationalization. It has been a widely held belief that foreign incoming academics contribute positively to research and to the production and dissemination of knowledge in South Africa. However little and incomplete information has been available on these researchers in terms of country of origin, field of study, length of stay and so on. In this paper, a national audit of foreign

academics is used to shed light on their profile followed by a discussion of possible reasons for moving and the policies used to attract foreign academics to South Africa.

### **Rationale for the Study**

After an intensive review of the literature on academic expatriates, there seems to be a dearth of studies conducted in the South African context. Numerous studies have been conducted abroad both in terms of the brain drain phenomenon as well as studies that have focused on academics from certain countries and their motivations for mobility in terms of “push” and “pull” factors (Nunn, 2005, Casey, Mahroum, Ducatel and Barre, 2001; Altbach, Reisburg and Rumbley, 2009). Richardson (2002) uses academic expatriates as the group of self-directed expatriates she researches, and using a qualitative study, examines their personal experiences in a very in-depth manner. Altbach and Lewis (1997) also examines academic expatriates in terms of the push-pull factors that motivate their move to overseas universities. Both Altbach and Lewis (1997) and Richardson (2002) focused on self-directed expatriates from a particular country, the U.S and the U.K respectively and their experiences in other countries. African authors like (Oni, 2000; Ejaku, 2002; Logan, 2000) have focused on the countries in Africa, like Zimbabwe, Sudan and Malawi, while authors like Mattes and Richard (2002), Brown (1998) and Kaplan and Charum (1998) have focused on South Africa in terms of “brain drain” and the mobility of the highly skilled worker .

In the present study, the researcher intends to examine the academic expatriates from various countries currently working in South African higher education institutions. The value added to the existing body of literature is therefore that the sample used in the present study focuses on the inflow of academic expatriates into the South African higher education system and thus is unique in its context and sample.

## **Research Aim**

The main aim of the study was to determine the profile of academic expatriates currently employed in the Higher Education system of South Africa.

The sample was selected from the Higher Education Management Information Systems (HEMIS) Database, run by the Department of Higher Education in South Africa. The sample was selected using the following parameters set by the researcher:

1. Foreign born, in other words not of South African origin.
2. The nationality of the academic.
3. The institution at which they are employed.

## **Research Objectives**

1. To determine the nationality of the academic expatriates currently employed in South African higher education institutions.
2. To determine main recipient universities of academic expatriates in South African Higher Education.
3. To determine the distribution of inflows of academic expatriates into South African higher education institutions.

## **Literature Review**

### **Globalisation and the University**

There has been much debate about the impact of globalization on higher education. Some have argued that globalization, the Internet and the scientific community will level the field in the new age of knowledge interdependence. Others claim that globalization means both worldwide inequality and the enfranchisement of the university. It is argued that all of the contemporary pressures on higher education, from the pressures of massification to the growth of the private sector, are the results of globalization. Both these viewpoints have some truth and a good deal of misinterpretation thrown in (Altbach; 2002,2004).

Academia around the world is affected differently by global trends. Countries that use English as a medium of communication benefit from the widespread use of that language for science and scholarship. Today's globalization in higher education does not lack precedents. From the beginning, universities have incorporated tensions between national realities and international trends. While English now dominates as the language of research and scholarship, at one time German did, as did Latin. Both students and scholars have always worked outside their home country. Globalisation in the 20<sup>th</sup> century is truly worldwide in its reach – few places can escape contemporary trends and innovations and practices seem to spread faster due to modern technology (Altbach, 2004). The academic labour market is no exception. The motives of the highly skilled for geographic mobility are varied, dependent on push and pull factors such as personal aspirations, scientific curiosity, government policies industrial entities giving incentives to attract foreign skills to a particular country. The common term used to describe the globalisation of the academic community is internationalisation and it is a term used to describe the effects of globalisation on the academic community. In particular internationalisation is responsible for increased geographic mobility of academics, this can be attributed to increased participation in international education and training and the increased demand for international and cross-cultural experience. Included comments here

### **Brain Drain: The Global Situation**

The flow of academic talent at all levels is largely directed from South to North- from developing countries to the developed academic systems of the UK, Europe and America. Numerous visiting scholars travel across international borders to take up temporary teaching positions or to undertake research. In 2000, the USA hosted almost 80 000 visiting scholars. Most visiting scholars return home after their sabbaticals, although a certain number do use their assignments as opportunities to permanently emigrate (Altbach 2004: 12).

Academic migration is not limited to developing countries as academics will take jobs in countries with more attractive opportunities, salaries and working conditions. A significant exodus continues to take place from the UK to the US and Canada because of low salaries and deteriorating working conditions in the UK. Scholars from Denmark and Finland are sometimes enticed by the larger metropolitan cities by the prospect of being the center of research activity



and having access to the latest scientific equipment (Casey, Mahroum, Ducatel and Barre, 2001: 14).

Academic migration takes place at all levels of the academic system, especially in the sciences like biotechnology, engineering, information communication technology (ICT) and some management areas. Such migration may occur more at the top of the systems with some world famous academics being attracted abroad by high salaries at top universities and at the bottom where modest salaries are able to lure foreigners but are unappealing to local applicants (Altbach, Reisburg and Rumbley, 2009:13).

Academic migration follows complex routes. Many Egyptian, Jordanian and Palestinian academics work at Arabian Gulf universities, attracted by the higher salaries and better working conditions than are available at home. Indians and Pakistanis are similarly drawn to the Gulf as well as to South East Asia. Singapore and Hong Kong attract academics worldwide. Mexico and Brazil employ scholars from elsewhere in Latin America. South Africa, Namibia and Botswana currently recruit Africans from elsewhere on the continent. Some of the best scholars and scientists from Russia and a number of Central European countries have taken positions in Western Europe and North America (Altbach, 2004:13, Kim, 2009: 395).

To understand the scale and impact of skilled labour migration from developing countries, it is necessary first to understand the factors driving it. These can be usefully categorised as „push“and „pull“ factors. Pull factors are those factors that attract skilled labour from developing countries and relate in the main to conditions in countries that receive skilled migrants (Nunn, 2005:8).

These include:

- Higher wages.
- Job opportunities.
- Relatively good working conditions.
- Freedom from political instability or oppression.
- The use of selective immigration policies designed to attract high skilled workers, while simultaneously serving as a deterrent to others seen as less economically beneficial to receiving countries.

In the case of academics, these are augmented by access to research funding and facilities and the potential to collaborate with other researchers (Nunn, 2005:9). Push factors include:

- A lack of life chances.
- Low living standards.
- Political and social instability or repression.
- A lack of opportunities to utilise skills.
- Natural disasters and environmental or ecological deterioration.

Once, this movement of talent and skill was perceived as a “brain drain” because those who left never came back nor did they maintain any sort of academic links to the home country.

Numerous authors (Nerdrum and Sarpebakken, 2006; Altbach, 2004; Nunn, 2005, Richardson, 2002) argue that the situation has undergone a change. Many academics and highly skilled workers who have migrated maintain close contact with their countries of origin, often nurturing scientific and academic relationships with colleagues and institutions at home. Some have even returned after establishing careers abroad as academic conditions at home have improved—some academics from South Korea and Taiwan returned from the United States or other countries to accept senior academic posts once working conditions, salaries and respect for academic freedom had improved (Altbach, 2004:14).

More commonly, academics return home for lectures or consulting, to collaborate on research with colleagues in the home country, or to accept visiting professorships. Facilitated by technology and the advent of the Internet these links are becoming more appropriate and useful. Such trends are becoming especially strong in countries with well developed academic systems like China, India and South Africa (Ansah, 2002:21).

Industrialized countries have promoted the migration of academics and other highly skilled labour by creating immigration policies that encourage talented personnel to migrate and establish residency. In many countries academic institutions make it easy for foreigners to fit into the career structure. Countries that have barriers to foreign participation in academia suffer as a result. This phenomenon has received great attention from international organisations like the OECD (Organisation for Economic Cooperation and Development), EU (European Union), and

UNESCO (United Nations Educational, Scientific and Cultural Organisation). Various broad based surveys have been undertaken by these international bodies in order to track international mobility of researchers. The OECD publication “*The Global Competition for Talent*” attempted to summarise policies and programmes used by various countries around the world to attract global talent (OECD, 2008:34). The brain drain situation in Africa will now be examined.

### **Brain Drain in Africa**

It has been a common practice among the highly skilled to migrate and join stimulating work environments outside their home countries. Termed the *brain drain*, it represents the loss of highly skilled professionals from a source country to a recipient country. Migrants leave one country for another as a result of strong attractions associated with differentials in living conditions, opportunities for professional advancement, and the existence of an environment that is conducive to peace and security. The term *brain drain* gained popularity in the 1960s. Then it referred to emigration of scientists to the United States from countries such as Britain, Canada, and the former Soviet Union. Today, the concept is used to denote the flight of highly skilled professionals and academics from developing to developed countries (Nerdrum and Sarpebakken, 2006:217).

*Brain drain* remains a development issue, as it challenges capacity building, retention of skilled workers and sustainable growth of Africa at large. Depending on the combination of circumstances involved, emigration can be perceived by those involved either positively (those who are in search of new opportunities and experiences) or negatively (those who see migration as an unavoidable flight). Migration from one's country is always the outcome of a balance between push and pull factors. Oyowe (1996:59) expressed it succinctly:

*“When a highly qualified professional chooses to leave his/her country for another, the person does so for one of several reasons, political or economic: peace and security for him/herself and his/her family; job satisfaction; better conditions of service; higher living standards. Throughout history, countries and centers of excellence which offer these attractions have received the largest number of professional migrants and these have, in turn, made substantial contributions,*

*not only to the growth of the economies of their host countries, but also to the scientific and technological advancement of humanity”.*

This phenomenon is common for many African countries, like Ethiopia, Ghana, Sierra Leone and South Africa. South Africa is losing many of its most talented academics to the North while at the same time it is recruiting from elsewhere in Africa. This “brain drain” has seriously weakened the academic institutions of many developing countries (Outward Bound, 2002:24).

The continent has witnessed decades of wasted development potential and, in places, suffers problems of extreme poverty and lack of both human and institutional capacity. Even relatively developed African states, like Nigeria, demonstrate a lack of capacity to meet demand for education. In 2000, Nigerian universities could accept only 12% of applicants (Nunn, 2005:10). The loss of skilled labour and academic staff in particular is thus an acute problem.

This is a key issue because high skilled labour does not migrate from the poorest places but from those places that have achieved some level of development – enough to put in place a relatively strong education system. A further key issue highlighted in the literature is that competition for academic labour is neither new, nor does it come solely from the developed world. The literature on academic migration in Africa shows that there has been considerable movement of skilled professionals within Africa as well as from Africa to the developed world (Sefa Dei and Asgharzadeh, 2002:31). It also shows that relatively developed states in the continent – such as South Africa – have begun to awaken to the competitive logic of contemporary immigration policies and pursue a more economically determined approach to attracting skilled labour from abroad.

In the absence of fundamental and sustained improvements in the sociopolitical and economic environment in Africa, African governments will unfortunately be left with very limited levers for stemming the outflow and attracting and retaining professionals in their countries. Addressing the issue is not a question of morality or patriotism. Emigrating professionals and academics will not return to their home countries out of patriotism. Working conditions must be improved: salaries must reflect market conditions, tertiary institutions of learning must provide facilities for

teaching and research, and doctors and medical personnel must work in well equipped hospitals and medical centers (World Markets Research Center, 2002:1).

African governments need to make the continent a more attractive place to work and live. The following are some of the fundamentals for managing the brain drain problem (Sako, 2002:28):

- Emergence of conducive political environment: good political governance; effective leadership; accountable public sector; transparency in government procedures, transactions, investment decision making, contracts, and appointments; informed public and broad participation; adherence to the rule of law; and effective reward system
- Promotion of productive economic environment: improvement of economic management and working conditions, appropriate incentive structures, recruitment and promotion processes based on merit and professionalism
- Enhancement of social environment: support for the emergence of a vibrant civil society to provide effective pressure for good governance and accountable leadership
- Cultivation and consolidation of peace, security, and stability in African countries
- Improvement of political governance and respect for human rights
- Acceleration of economic integration and the emergence of the African Union
- Enhancement of investment in human resource development and capacity building
- Reform of traditional technical assistance programs to strengthen the use of African experts

Addressing the issue of how to effectively manage the brain drain is difficult. Key institutions such as universities, research centers, specialized training institutions, core public sector ministries and agencies, as well as private sector and civil society organizations, should periodically be assessed to identify capacity gaps and explore strategies for filling them.

Logan (2000:25) has conducted survey research with academics in Zimbabwe in an attempt to identify the causes for the country's transition from being a magnet for Skilled workers from elsewhere in Africa (and from the Zimbabwean Diaspora abroad) to being in a position of mass emigrations. Logan (2000:21) explains the past attraction of Zimbabwe to academics from abroad as a result of optimism associated with the early independence period, democratisation and purposeful nation-building programmes including

comparatively (with other countries in the region) high academic salaries. However, he also highlights the more recent economic stagnation, social unrest and political repression. The sample group in Logan's (2000) survey were roughly equally split between those who preferred to stay and those who expressed a desire to leave. The latter group tended to be younger, less experienced and to be less satisfied with their salaries and terms and conditions of service. This group also cited poor research and teaching facilities as significant causes of disgruntlement. Interestingly, however, those expressing a desire to leave did not necessarily wish to go to destinations in the developed world. Though Britain, the US, Germany, France, Italy, Canada and Australia all featured in the top twelve, other (Southern) African nations were the most popular, particularly Mozambique, South Africa and Botswana (Logan, 2000:27).

Oni (2000:1) describes the impact of restrictive budgets, especially in the context of austerity-based adjustment measures, he compares salary levels for academic staff in Nigeria, Ghana, Ethiopia and South Africa, concluding that a professor in Nigeria earns 1% of a professor's salary in South Africa. As important is the difference between academic salaries and those of other professions in Nigeria, particularly in government, the civil service and oil. He documents the frequent attempts of Nigerian academics and academic trade unions to confront the government over the impact of low levels of funding on staff salaries, morale and the quality of teaching and research infrastructure. It is the combination of these factors and the typically authoritarian responses of Nigerian governments (sequestering Union funds, proscribing further action and harassment, arrest and detention of union leaders) which leads to brain-drain tendencies:

*“As a result of their inability to maintain a decent standard of living with their salaries, some have resorted to voting with their feet to look for better opportunities in the private sector or as consultants to international organisations or government; while others have either migrated to other countries or engaged in trading. Under the military regime some have entered into the bureaucracy as ministers, special advisers to governors and heads of government parastatals. For the period 1988 and 1990 when the fall in government revenue was very low and inflation was high (41%) the National Universities Commission confirmed the separation of over 1000 lecturers from the universities” (Oni, 2000:2).* South Africa will now be examined in terms of the brain drain phenomenon.

## **Brain Drain In South Africa**

The issue of teacher migration from South Africa is well documented with teacher shortages in the UK having been offset by migrants from South Africa. The problem does not only exist in the teaching fraternity but in nursing and other skilled professions also. Bhorat, Meyer and Mlatshui (2002:56) state that there are over 200 South African dentists in the UK and the migration of nurses is a noted national problem. The South African Medical and Dental Council estimated in 1995 that:

“...about 150 doctors emigrate each year (approximately 0.7% of the stock). Given that the number of doctors graduating a year is growing at marginally more than 1% per annum with population growing at 2.3%, this is causing great concern in medical circles and in the restructuring of the health services.” (Kaplan and Charum, 1998:78).

It is because of this that „Brain Drain“ has become a national policy debate in South Africa ( Brown, 1998; Kaplan and Charum, 1998). The South African Department of Home Affairs has also published several reports (RSA Department of Home Affairs, 1997; RSA Task Team on International Migration, 1999) linking skills shortages to the lack of internal capacity for development (Department for Arts, Culture, Brain Drain and Higher Education, Science and Technology, 2002), brain drain and, despite the protests at the international recruitment actions of others, the need to attract skilled labour from abroad:

*“We believe that there is a serious shortage of skills at the higher end of the labour market in many occupational categories and that this situation will worsen if South Africa enters upon a projected period of sustained economic growth and infrastructure delivery. These shortages are exacerbated by an under-enumerated brain-drain from South Africa to other industrial states. Internal training capacity is too limited to make up the shortfall in the short to medium term....In our view, aggressive local skills training (brain-train) and brain-gain strategies must be pursued in tandem in the short to medium term. Brain-gain strategies involve individual and group recruiting in key sectors; and promoting links with skilled nationals and former nationals abroad to encourage permanent or temporary return.”* (RSA Department of Home Affairs, 1997).

Bhorat *et al.* (2002:18) review the issue in some depth. Among “push” factors they highlight the deteriorating crime and public safety context, the cost of living, increased taxation, a perception among whites that public services (particularly education and health) have declined in quality and perceptions of the chances for improvement in the future. Mattes and Richmond (2002), based on survey research, provide extensive support for these arguments. Bhorat *et al.* (2002:21) pose the end of apartheid as a potential explanation for increasing intentions of skilled whites to emigrate. However, this is rejected because of the high levels of migration that preceded the formal end of apartheid:

*“The actual brain drain - that is the net loss of skilled human resources – is not directly and essentially tied to the social and political change of the mid-90s; it started significantly earlier than the onset of these changes. This change may have amplified the phenomenon but it is not the origin of it. The emigration of skilled professionals increased by only 21%...”* (Bhorat *et al.*, 2002).

South Africa is well placed as a sender nation also because of its well developed education system meaning that its most skilled workers can integrate into global labour markets, with the added advantage of English as the dominant global language. Thus skilled emigration from South Africa is facilitated not only by „push“ factors, but by the way in which these link to global „pull“ factors. Bhorat *et al.* (2002) identify these pull factors as general economic and technical change on a global scale which generate demand and wage premiums for skilled workers, alongside demographic change and ageing populations in developed countries and brain drain and higher education.

In addition to these, Mattes and Richmond (2002) argue that specific “pull” factors related to South Africans such as significant expatriate communities and networks in many advanced economies such as the UK, help make the information flow about opportunities abroad and the potential for settlement easier. Bhorat *et al.* (2002) argue that economic and technological change is creating increased demand for skilled labour in South Africa at the very point at which it is being sucked out of the country, effectively augmenting the problem. This finding contradicts the often held notion of South Africa as a magnet for skilled migration from other Southern African



states. Indeed several authors (Bhorat *et al.*, 2002; Kaplan and Charum, 1998) specifically investigated this issue and found that since 1994 this has not been the case and that South Africa: *“experiences a net loss towards the SADC (SADC is the Southern African Development Community) partners...far from being a country draining on the skilled resources of its neighbours, South Africa was recently sending more people to these countries (particularly Zimbabwe and Namibia) than it receives”*. (Bhorat *et al.*, 2002: 18).

Bhorat *et al.* (2002) analysis also draws important considerations for the overall brain drain argument in South Africa in their discussion of skills shortages and labour market trends. Like in many developed countries, they identify skills shortages at the top end of the skills distribution as coexisting with high rates of unemployment at the other pole. The problem for South Africa, though, is grossly amplified with 36% of the economically active population being jobless in 1999, with this figure currently sitting at 41% in 2011. This is a significant factor and should shape conclusions as to the nature of the Brain Drain problem because it suggests that the under-utilisation of human capital resources within the country is a significant issue. This is further supported by their discussion of higher education which they suggest significantly underperforms in meeting labour market needs (Dunn and Nilan (2007:265). Specifically, they argue that there is both under-supply and mismatched supply as the system neither produces enough or the right type of skills. They note declining degree awards and an increasing focus in home economics, philosophy, languages and public administration:

*“These statistics indicate that tertiary institutions have been producing a growing number of graduates in fields where demand for these skills has not been growing. Furthermore there has been little real growth, if any, of awards in the fields where labour demand has grown rapidly during this period. There is therefore a mismatch between supply of skilled personnel by tertiary institutions and their demand in the labour market, which adds to the growing shortage of skills.”* (Bhorat *et al.*, 2002: 21).

These deficiencies in the South African HE system are recognised by the government and were cited as part of the justification for reform in the 1996 Green Paper on HE reform (RSA Department of Education, 1996). The document also notes that *“the attrition and ageing of*

*well-qualified academic staff and the emigration of graduate labour compels attention”* underlining the point that academic migration is not merely part of the broader brain drain but acts as a barrier to domestic skills formation that might offset it.

As a result of the recognition of the skills shortage, there has been increasing debate in South Africa about measures to both take advantage of the opportunities presented by the South African Diaspora for technology and knowledge transfer and for attracting and retaining skilled professionals. Thus South African Network of Skills Abroad (SANSA) has been created to facilitate the transfer of knowledge and skills back to South Africa. SANSA was to facilitate these transfers through temporary South African student placements with expatriate academics, collaborative training and research projects, facilitation of business networks and the initiation of spin-out ventures (Brown, 2000).

The democratically governed South Africa sought to position itself as a “middle-income country with areas of high technological sophistication” (Akoojee and McGrath, 2004:26). Ideas of establishing academic legitimacy and world class institutions of higher learning were enthusiastically taken up by newly invented universities of technology and research driven public universities. In 1997, the International Education Association of South Africa – IEASA- was established to:

*“advocate, promote and support internationalization of higher education by providing a professional forum for institutions and individuals to address challenges and develop opportunities in international education” (IEASA website).*

The *Protocol on Higher Education and Training for Nations in Southern Africa* makes it clear that South Africa bears a considerable responsibility for developing human resources in the region (Mashinini and Mashinini, 2003:21). According to the document, South Africa seeks to establish itself as a major higher education provider in the region and the continent. One recent major policy statement by the South African Universities Vice-Chancellors Association frames this intent concisely:

*“ Internationalization of South African higher education is defined by the sector as the process of integrating an international, intercultural and global dimension into the purpose, function and delivery of higher education, bearing in mind South Africa's internal developments and its*

*responsibilities toward the development of higher education in the region and the continent*".(South African Universities Chancellors Association – SAUVCA, 2004:3).

The notion of internationalization can be measured by many characteristics, the major components are (Mahroum, 1999:121):

1. The proportion of international students in the higher education system.
2. The international orientation of the curricula.
3. The intensity of foreign exchange programmes.
4. The extent of participation in overseas collaborative activities.
5. The proportion of international academics among the staff in the higher education system.

The last component according to Mahroum (1999) is arguably the most genuine indicator of internationalisation of the academic community. This paper will seek to investigate the mobility of foreign academics into the South African higher education system as an indicator of the level of internationalisation South African higher education has achieved in the period 2005-2009. The global picture of the mobility of academics will now be discussed.

### **International mobility among academics**

The mobility of academics and researchers can be pursued for three, not mutually exclusive reasons (Nerdrum and Sarpebakken, 2006: 218):

- Keep up to date with state of the art, cutting edge technologies in their chosen fields of interest.
- To have qualified feedback on the originality, relevance and quality of one's own research.
- To have a source of inspiration to assist the individual to go further and deeper into his/her field of interest and strive for excellence.

From societies point of view there are obvious benefits arising from the migration of academics. David and Foray (1995:13) argue that knowledge must be created, transferred and used in order to contribute to the advancement of science and technology. The most important factor for them

is the “distributional power” of knowledge within innovation systems and their ability to transfer knowledge among members.

The seminal work done in this field was commissioned by the Carnegie Foundation in America. Altbach (1996) conducted research on academics in fourteen different countries and has linked increasing international mobility with deteriorating working conditions in some countries. Focusing on England as the “home country” of some participants in this study, Altbach (1996) reported a general consensus that the working conditions for academics had deteriorated and respect for the profession and its influence are declining.

Given that it is one of the first international studies of academia (Altbach, 1996, xi) the Carnegie study is worth exploring in detail here. Using postal questionnaires, it surveyed academics in fifteen countries: Australia, Brazil, Chile, Egypt, England, Germany, Hong Kong, Israel, Japan, Korea, Mexico, the Netherlands, Russia, Sweden and the United States. Egypt was not included in the final report as there were complications with the administration of the questionnaire. The results showed that over half the respondents in ten of the target countries had travelled internationally for the purposes of research or study.

One of the main contributions of the Carnegie study is to provide evidence that academics with international experience are likely to be more privileged, occupy a higher status and/or be more “high flying” than their colleagues with little or no overseas experience (Altbach, 1996; Welch, 1997b). Even though no specific figures were cited, it did report that academics were independently seeking positions outside their country of origin. Although there was no exploration of individual drivers to or evaluations of international mobility and hence expatriation, the findings present a good foundation upon which to build research such as this. Finkelstein, Walker and Chen’s (2007) study conducted among 17 countries (Argentina, Australia, Brazil, Canada, China, Italy, Japan, Korea, Malaysia, Mexico, Norway, Portugal, United Kingdom and the United States) was a fifteen year follow-up to the original Carnegie Foundation International faculty survey. Its results do not present much progress of US faculty internationalization during the fifteen years (1992-2007) between surveys. One of the most interesting results of the study was that faculty who had spent time abroad were more likely to

incorporate international issues in their teaching and have a research agenda with international scope than those who did not (Lebeau, 2010: 44).

Attracting foreign or domestically born academics from abroad is becoming increasingly important to policy makers internationally. Contemporary discussions on mobile human capital have been termed *brain circulation* (Mahroum, 1998:119). This issue has been primarily driven by international organisations with research policy agenda, particularly the Organisation for Economic Cooperation (OECD) and the European Union. Ansah, (2002), Altbach *et al.*, (2009) also argue that the high propensity for junior researchers to circulate as post-doctorates is an important factor in enabling knowledge sharing internationally and nationally. In some countries, emigrated academics tend to return to their home country after some years, whereas in others this may not be the case, thus in these countries it has been necessary to establish policies and programmes to attract these academics back home.

## **Methodology**

The data was collected from the Higher Education Management Information System (HEMIS) for the period 2000-2008. The information was the result of institutional audits conducted by the Department of Education (DOE) in order to monitor and control staff at South African higher education institutions.

## **Data Collection**

Secondary data sources (HEMIS and STATS SA) were used to extract and analyse data. This secondary data analysis was undertaken in order to establish the prevalence of the phenomenon, as the research sought to identify the population size of expatriate academics at South African institutions of Higher Education. The results of the survey were then analysed using descriptive statistics and from STATS SA.

Inconsistencies regarding type of data collection removed

## Results

The most common term used to describe the globalization of the academic community is internationalization. The term is also used to refer to the effects of globalization on the academic community. The notion of internationalization can be based on many characteristics, mainly by taking into account the following:

- The proportion of overseas students in the higher education system.
- The international orientation of the curricula
- The intensity of foreign exchange programmes
- The extent of participation in overseas collaborative activities.
- The proportion of overseas persons among the academic staff in the higher education system.

The last point given here arguably is the most genuine indicator of internationalization of any given academic community (Mahroum, 1999).

Figure 1 represents data based on the number of work permits issued by the Department of Home Affairs for the period 2000-2005, to professionals of all groups. These work permits are issued to all non-South African citizens seeking temporary employment in South Africa. Every foreigner has to first apply for a work permit and temporary residence before he or she is considered for permanent employment and citizenship.

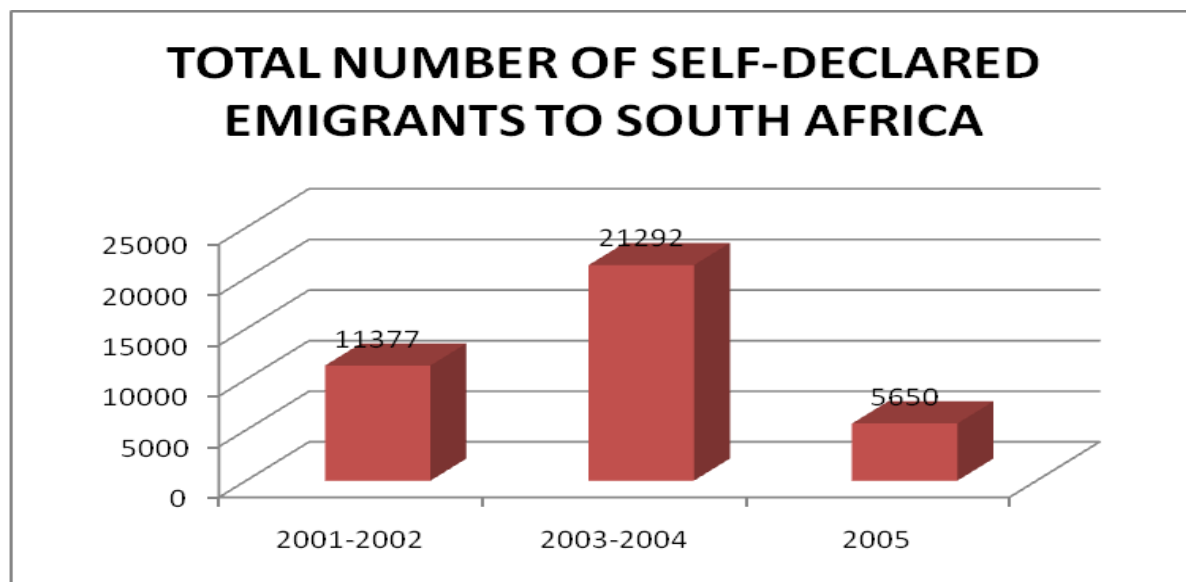


Figure 1: The Total number of Self-declared Emigrants to South Africa for the period 2001-2005. Sources: Stats SA, (Report 03-51-03) and (Statistical release P0351)

However it is interesting to note that the ratio of foreign academic staff for the period 2001-2005, to self-declared emigrants is almost 10% (9.79%). The reason for the statistics only being available for this period and not beyond is that, as from February 2004, statistics on self-declared emigrants were no longer collected due to the Immigration Act, 2002 (Act No. 13 of 2002). In the period 2000-2002, around 2546 foreign academics were employed by South African universities. This figure has increased to 3167 employees for the period, 2006-2008. The increase is indicative of a new trend, whereby universities are recruiting many overseas academics in order to meet the growing demand of internationalization of universities not only from a curriculum point of view but also from a staffing perspective in order to gain the required momentum in terms of global competitiveness for both top students and top academics.

<b>Higher Education Institutions: Academic Expatriate Staff</b>	
2000-2002	2546
2003-2005	2121
2006-2008	3167

Table 1: Inflow of foreign academics into South African Higher Education Institutions for period 2000-2008. Source: Higher Education Management Information System (HEMIS) 2010.

Table 1, portrays the flows of foreign academic staff into South Africa between 2000-2008. The figures represent the overall turnover of staff for this period and do not reflect the current situation. This situation has arisen as data for the period 2009- current is not available as the collection of this data by the Higher Education Management Information System (HEMIS) is in the process of collecting data for the period starting in 2009. It would seem that the inflow of professional emigrants is on the increase since 2000. The inflow of academics from abroad seem to be part of this general trend of increasing numbers of foreign professionals arriving in South Africa. Table 1, represents an increase in the number of foreign academics coming into South African higher education institutions for the period 2000-2008. All the institutions of higher education in South Africa have seen an increase in the number of foreign academics in the period 2000-2008. Included comments about general increase of foreign academics

### **Supply regions**

From the secondary data obtained from the Higher Education Management System (HEMIS) of South Africa, an analysis of extracted data indicates that the bulk of overseas academic inflows into South Africa have come from European countries. What makes the trend phenomenal is that the inflows are concentrated in number of large and prestigious institutions and in particular disciplines. Inserted comments about European inflows. Europe is followed in turn by, other African countries, especially Zimbabwe, Asia and Australia. Inflows from Europe represent almost 42% of the total percentage of inflows for the period 2005-2008. These results are in line with the findings of Altbach's (2004) study, which found that South African higher education institutions were recruiting from other African countries. It also suggests that academic migration patterns follow the traditional labour migration patterns where foreigners migrate to South Africa from other African countries because of its strong socio-economic reputation and position in the African continent. Zimbabwe a country with a strong emphasis on good quality education, now finds itself in a predicament due to the social and economic upheaval it is currently experiencing. This has led to a mass exodus of not only the highly skilled but also lay people struggling to escape the persecution in their home country. This has led to not only a high number of Zimbabwean academics coming into South Africa, but it is also matched by a large contingent of Zimbabwean students entering South African higher education institutions.



<b>Supply of Academic Expatriates according to Nationality 2005-2008</b>	
Australian	2%
Asian	6%
Zimbabwe	20%
Other African Studies	30%
European	42%

Table 2: Supply of Academic Expatriates according to Nationality, 2005-2008. Source: Higher Education Management Information System (South Africa) 2010.

Large proportions of academic staff in several leading universities, such as the University of Cape Town, University of Kwa-Zulu Natal, University of Pretoria, Rhodes University and University of the Witwatersrand are from overseas. The reason might be a steady increase of outward mobility of South African academics and the introduction of competitive elements like the awarding of research grants, contract research and funding, opportunities for international collaboration and funding from overseas might also introduce incentives for universities to hire more Europeans as well as other foreign academics. Furthermore, joint European projects and collaborations might have introduced the South African labour market to academics in other parts of the world and provided career opportunities for many of them.

Some anecdotal evidence points in this direction. The flexibility of short-term employment positions at South African universities appeals to foreign citizens, who are either at the start of their careers, or who are senior staff seeking further promotion. By taking on short-term but higher level positions in the flexible South African academic market, their careers get a boost back home. It is well known at South African universities that the higher level academic posts are on a contractual basis, positions such as Head of School, Dean, Deputy Dean, Vice Chancellor, Deputy-Vice Chancellor are either 2-5 year terms of office. However, during contractual negotiations permanent positions in their respective faculties can be ensured.

## **The distribution of inflows**

Almost all universities have experienced an increase in the number of overseas academic staff members. There are various factors that can account for this situation. Firstly, there has been a rapid expansion of the South African Higher Education system since 2003, when major restructuring saw the merging of Higher Education institutions into Universities, Universities of Technology and Technikons. Universities of Technology were the result of mergers between technikons and universities in a particular region, for example, Tshwane University of Technology, in Pretoria. Public institutions of Higher Education now had to compete against each other on equal footing in order to attract scholars, students and funding. I have removed information regarded by reviewer as incorrect.

A second factor has been the rise of research assessment tools, in terms of productivity points for research output of academics and the numbers of postgraduate students an institution has. In terms of postgraduate students universities are awarded funding by government for the number of Masters and Doctoral students they produce.

Anecdotal evidence indicates that this process has seriously affected the management of resources for research. Designating staff as “research active”, and strategies for recruiting and retaining key research staff, has certainly given weight to the adage “publish or perish”. Academic staff are increasingly finding themselves under pressure to further their own academic qualification but also to publish research and produce articles. Most universities have made it abundantly clear to staff that they need to have the doctorates and pressure is certainly being put on staff in terms of time lines for the achievement of their doctorates and improving their qualifications.

Finally, the reputation of South African Higher Education Institutions of being flexible and open systems for both students and academics seeking promotion in their careers is a factor of importance.

The distribution of inflows amongst certain institutions does not seem to be random. The largest recipient (University of Cape Town) has received 833 foreign academics in the period 2005-

2008. This implies that there are different sets of factors that account for the various types of inflows.

Thus one can argue that there are three dynamics at play,

- The attraction of the field
- The reputation of the institution, and
- The attraction of a location

At this level very little is known about the three dynamics and how they interact, therefore further research is required to highlight the effects of each of these independently and in interaction with each other (Mahroum 1999). Nevertheless, the data have so far indicated the following:

### **Main recipient universities**

As can be seen from Figure 2, the Universities of Cape Town, Kwa-Zulu Natal, Pretoria, Rhodes and Witwatersrand top the list of recipient institutions. The majority of these institutions also host a significant proportion of overseas students. The proportion of foreign students is a good indication of the extent of internationalization of a university. The top recipients are all “old” universities that are well known for nationally and internationally for their excellence.

Additionally all are located in large towns and cities, which may be one attraction factor for foreign academics.

Anecdotal evidence points also to the fact that the reputation of certain universities for excellence in a particular field attracts foreign academics, for example the University of Witwatersrand, is world renowned for its programmes in Social Science and the University of KwaZulu-Natal for its programmes in Agriculture and Sciences. Here I have included information that I have sourced from colleagues and other experts in the field. The five lowest ranked recipients of foreign academic staff are relatively new universities created through the restructuring process who have yet to establish a reputation in terms of attractiveness for foreign staff and students and technikons who have poorer reputations in terms of research output and funding opportunities than their well established counterparts.

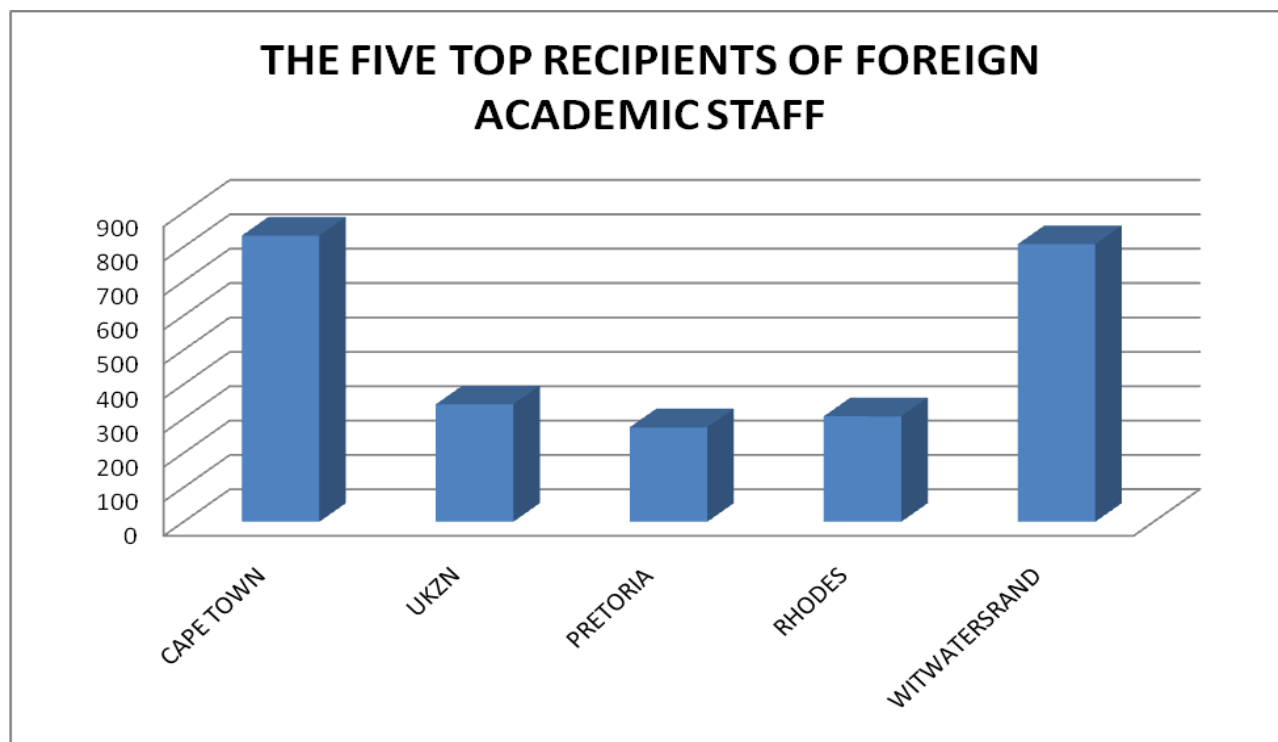


Figure 2: The Five Top recipients of overseas academic staff, 2005-2008. Source: Higher Education Management Information System (HEMIS) (South Africa) (2010).

A breakdown of foreign staff according to their field of study on a national scale was not available from HEMIS data base as their survey capabilities were restricted by the information furnished to them by the institutions themselves.

## Conclusions

This paper has attempted to broaden the scope of the analysis of the geographical mobility of foreign academics by examining the major recruiters of knowledge, namely academic institutions. It has focused on the South African academic labour market because this is the context within which the larger study is taking place. Despite much of the talk about the internationalization of the academic community in the developed world, the academic community of South Africa is still far away from being truly global. In fact, the foreign academic market seems to be markedly African with European countries being the other top supply region. Patterns of dominance regarding the outflow of highly skilled labour from African countries still

persist today and this study reiterates this “brain drain” or “circulation” patterns reflected in almost all spheres of highly skilled labour migration.

Finally, the deregulation of the academic labour market and the restructuring of the academic system, which has made it easier to recruit The salaries being paid for academic labour in South Africa is also below that paid in the UK, USA and Europe, however still remain attractive for our African counterparts, the increase in supply might make it less lucrative for local graduates to pursue an academic career, which will eventually affect the quality of applicants both foreign and domestic.

### **Policy Implications**

Three levels of analysis for policy can be postulated, namely first, the institutional level, second, the disciplinary level and third, the labour and skills market.

At institutional level, since the disparity between high performance and lower performance academic institutions is expected, through the attractiveness of equals to each other, to increase, administrators of academic exchange and mobility programmes can design certain schemes that provide incentives for high-low mobility. Academics from the lower and higher strata of the scholarly ladder can move up and down the rungs. Such movement can occur across all sorts of departments in order to distribute the skills flows more evenly in the research system. Such movement is particularly important in fields with very few high performers (Mahroum, 1999).

At field level, deliberate policies should be made to stimulate academic and skills exchanges in fields of weak performance. Such a policy would be justified to avoid being “locked-in” to a few and limited pockets of excellence. Certain incentives for international mobility for both inflows and outflows should be made to lift a large number of fields to levels of international excellence (Moloi, Gravett and Petersen, 2009: 278).

Finally, at the level of analysis of labour and skills, the foreign inflows of skills and availability of access to international pools of highly skilled personnel should not serve as a substitute for training and investment in the local labour force and the improvement in the conditions of employment for its members. As the paper has stated, a deterioration in conditions of

employment locally will affect the quality of inflow negatively and increase the likelihood of increased outflows of highly skilled personnel. The competition for the “best of the best” is very stiff, and is already very fierce amongst countries who want to secure only the very best for their employment.

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# **THE ETHICAL CONDUCT OF BUSINESS ORGANISATIONS: A SURVEY OF COMMERCE STUDENTS' PERCEPTIONS**

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# THE ETHICAL CONDUCT OF BUSINESS ORGANISATIONS: A SURVEY OF COMMERCE STUDENTS' PERCEPTIONS

## ABSTRACT

This study investigates the perceptions business and management students have towards ethical practices of businesses organisations in terms of the environment, their employees, community, regulators and competition. The decision was made to collapse certain groupings together and to use five stakeholder groups namely: the environment (including environmental groups); staff (encompassing employees and managers); the community at large (encompassing society and local communities); regulators and competition (focusing on the whole competitive landscape).

This study employed an exploratory survey design to collect primary data via a self-administered questionnaire. Non-probability sampling, in the form of a quota sample, was employed in this study. A target of 250 respondents was decided upon. Data were collected from 251 Business and Management students at a national university by means of a questionnaire and analysed using SPSS. The findings showed that students perceived the ethical conduct of organisations in a negative light. The paper forwards some recommendations and implications for future research and curriculum implementation.

Literature proposes that organisations desire to do what is considered ethical in order to be successful in business. The reputation of the organisation and the way stakeholders perceive the behaviour and the intentions of an individual business organisation play a role in ethical conduct and corporate behaviour. Ethics is defined as “the discipline dealing with what is good or bad, or right and wrong, or with moral duty and obligation.” Business ethics is the discipline that deals with the values and rules of the behaviour of society, while pursuing the objectives of an organisation.

**KEY WORDS:** Ethics; Ethical conduct; Business ethics; Corporate citizenship;

## INTRODUCTION AND BACKGROUND

Business ethics has long been viewed as something of a misnomer, with an underlying sentiment that it is a glossy veneer on an ocean of deceit and treachery on the part of organisations in the pursuit of net profit (Rossouw & Van Vuuren (2006). The point is that ethical behaviour within an organisation could potentially be insincere on the part of the individual business and be nothing more than just a “put-on” for customers (and other stakeholders) for them to see, feel at ease with and be reassured that the individual organisation is “doing the right thing” (Harvey, 2002). However, Abratt, Bendixen and Drop (1999) mention that people in business desire to do what is ethical and right. Harvey (2002) supports this and continues by saying that the majority of organisations and people in business are doing legal, honest, right and fair things each day. The motivation for acting ethically, according to Rushton (2002), is that when ethics are applied effectively, it leads to an enhanced organisation reputation and also makes a contribution to the firm’s performance and shareholder value. Simms (2006) takes a slightly divergent view, purporting that the reputations of organisations are at increased risk and business decisions must be viewed and made in an ethical light.

According to Clark (2006), “lapses” stemming from, *inter alia*, pressures from competitors often occur in ethical conduct, which in turn result in extreme demands on employees to meet goals that are not realistic, causing them to cheat and act unethically. Also, expediency is often favoured over quality, causing truth to be stretched; and on occasions the long-term benefits of the organisation are not considered by some people in the workplace (Harvey, 2002). However, this is portrayed as isolated incidents of individual liability and not a reflection of organisational practice.

Literature therefore suggests that organisations desire to do what is considered ethical in order to be successful in business, as it all boils down to the reputation of the organisation and in what light stakeholders perceive the behaviour and intentions of an individual business organisation. However, years of training within large organisations has led the researchers to different insights as far as the rank-and-file employee is concerned. Inevitably, this has led to a questioning of the *bona fides* of organisations in this regard:

- Do organisations really want to act ethically?
- Do organisations practise what they preach as far as ethical conduct and behaviour are concerned?

## **LITERATURE REVIEW**

### **The meaning of ethics**

Ancient Greek philosophers were arguably the first to study ethics (Rosenstand, 2005). The term *ethics* originates from the Greek word *ethos* which means character or custom (Nieman & Bennett, 2006). Ethics stems from morality, which tries to differentiate between what is right and what is wrong. Morality, however, is not the same as ethics; ethics endeavours to establish guidelines according to which one can differentiate between right and wrong. Ethics can, therefore, be considered as “the science of morality” (Nieman & Bennett, 2006). Ethics has long been part of the philosophical discourse, as philosophy is concerned with Mankind’s purpose in the universe. As such, philosophy inevitably questions why and how we behave as sentient beings pressures from competitors in the universe; it questions what values we have and makes us provide reasons as to why we agree with some things and disagree with others (Rosenstand, 2005).

Philosophy seeks morality’s origin through reason. If using rules for respectable behaviour is logical, then being rational is required for behaving morally. Emotions are also connected to people’s moral values along with reason (Rosenstand, 2005). Reason however can be spoiled by a lack of consideration for others, an unrevealed conscience, greediness, relativity based on one’s culture and thinking of oneself as a god; and that may be why children, before “the age of reason” can more easily discern between good and evil (Pastore, 2003). Being human involves using our emotions in making moral choices; reason must also be included in this as humans are not fully in control of all of their emotions (Rosenstand, 2005).

Some believe that being moral stems from concern about being caught out for having done something wrong and immoral and others believe that being moral and ethical is a built-in characteristic of people who are looking out for each other and the continued existence of their species (Rosenstand, 2005). Some people’s perceptions of good (which is defined as where evil is not present) and evil (meaning where freedom is mistreated) differ from the

norm, and only when actions of a legal nature are taken against them, do they realise they did wrong (Pastore, 2003) A popular guideline has always been the “Golden Rule”, which exhorts individuals to treat others the way they would like to be treated themselves and provides more adequate grounds on which to base ethical practices which are fair and acceptable (Nieman & Bennett, 2006).

Ethics is defined by Grobler, Warnich, Carrell, Elbert and Hatfield (2006:32) as:

*“the discipline dealing with what is good or bad, or right and wrong, or with moral duty and obligation.”*

Dart (2004) is of the opinion that discipline is a rule or set of rules that govern activity or conduct and that “moral” implies conforming to established codes or accepted views of what is right or wrong. Duty, as Dart (2004) points out, can be viewed as tasks, functions or services that are obligatory and arise from the position that a person holds. Although these sentiments are divergent, it is noticeable that morality, right and wrong, is a central notion here. Furthermore, the emphasis on discipline in both points of view highlight that ethics involves a choice that should be enforced. This, as Dart quite rightly points out, differs from duty as duty refers to an obligation one has, something involuntary, whereas ethics implies a choice.

Being ethical, therefore, involves:

- doing what is honest, right and good (Harvey, 2002);
- integrity (defined as uncorrupted, thus honest (Bradley & Schrom, 2004));
- values (how individuals and organisations feel about the worth and usefulness of ideals and customs (Bradley & Schrom (2004)). It must, however, be borne in mind that values do change over time and differ according to different circumstances, but at the end of the day, moral values include aspects such as fairness, honesty and responsibility (Brandl & Maguire, 2002).

Ethical conduct can be considered in many different ways, and different schools of ethical standards and routes to approaching moral differences exist. These include:

- Ethical relativity: What is viewed as good and right is decided by a society, a religious or a population group (Nieman & Bennett, 2006).

- Ethical universalism: The same standards apply as to what is unethical or ethical regardless of culture, tradition or society. This can also include sharing ethical standards regarding the operation of a business, no matter what region or country you are in (Thompson, Strickland & Gamble, 2007).
- Integrated social contracts theory: Ethical norms of an entity such as a business organisation will always take priority over ethical norms which are local; and this is where the notions of many cultures and societies are considered to form a type of contract of a social nature (Thompson, et al. 2007).

The aforementioned is by no means an exhaustive list, but serves to illustrate the point that the issue of ethics – and also morality – is a highly subjective topic and a myriad of views exists around it. In summary, Samuelson (2004) states that it would possibly be too late to try and make an impact on, or to alter, the moral stance of, for example, someone who is already in his or her twenties, as such aspects get deeply entrenched in our frame of reference over time. Different groupings will constantly tend to disagree on what is ethical or not, and the people who tend to decide what is right are usually judges and the police (Dart, 2004). Not everyone will possess the same set of moral values and that could explain why many organisations have experienced dire consequences as a result of their leaders' unethical practices and ways (Monaghan, 2005).

## **Business Ethics**

Business ethics is a particular context to which ethics can be applied. According to Nieman and Bennett (2006:239) business ethics become apparent “...where the moral duties of ethics apply to the activities and goals of an organisation”. Therefore, business ethics is the discipline that deals with the values and rules of behaviour of society, while pursuing the objectives of an organisation. Similarly, Bradley and Schrom (2004) describe ethics in a business as rules that govern the conduct of the profession that a person pursues. However, much more emphasis is placed on profession-specific norms of behaviour.

Hertz (2006) states that businesses have a duty to regard all those affected in every decision that they take. Doing ethically questionable things may have enabled a firm to acquire a competitive advantage a hundred years ago, but today such a company would go out of business. As already mentioned, people in business today are faced with great temptations and

pressures and this could result in dishonesty, focusing on short-term benefits and compromising quality in return for expediency (Harvey, 2002). Simms (2006) also indicates that too little attention is being paid to the long-term in businesses owing to these extreme demands on people in organisations.

With regard to being ethical in decision-making, Monaghan (2005) states that not all poor decisions result from unethical behaviour and that sometimes people are rushed and pressured in decision making and do not think everything through at the time. Abratt, et al. (1999) state that the decision making of managers is a complex subject and that our understanding of this is incomplete.

However, Abratt, et al. (1999) mention that people in business desire to do what is ethical and right. Harvey (2002) supports this in writing that the majority of organisations and people in business are doing legal, honest, right and fair things each day. This surely indicates that being ethical does have a very important place in business operations and performance, if the majority of people are trying to do what is right and honest in the workplace. Focusing on the short-term and providing poor quality will not ensure business success and that is linked with being unethical.

As Harvey (2002) states, ethical codes, compliance officers or an ethics department can be in place in a business owing to the negative consequences of ethical violations. In the end, however, ethical behaviour in organisations starts and ends with the individual. Therefore, organisations must be cautious as to whom they employ and with whom they form relationships. Monaghan (2005) says that people sometimes make decisions in business which are ethically questionable and this is not necessarily because they are behaving unethically. It could be because they were rushed to meet challenging goals and deadlines. Brandl and Maguire (2002) write that guaranteeing ethical behaviour is a huge challenge and that organisational ethics seems contradictory, but a business cannot afford to close its eyes to this challenge.

### **Business ethics and stakeholder theory**

Friedman (1970) is of the opinion that the only responsibility an organisation really has is towards its shareholders. Thus, Friedman's Shareholder Theory purports that managers (who,



in turn represent the organisation per se) should manage the organisation in the best interests of the shareholders by maximising their return on investment (Rossouw & van Vuuren, 2006). With increased emphasis on the rights of staff, protection of the natural environment and fair competition, however, this view has come under scrutiny, as the environment within which the organisation operates has evolved since Friedman presented it in 1970.

In reaction to Shareholder Theory, Freeman and Evan (1993:76) revisited the question of: *“for whose benefit, and at whose cost, should the organisation be managed?”*

What Freeman and Evan concluded was that there were several arguments that led to a rejection of Friedman’s original stance. These included:

- **Legal arguments:** Many court cases were cited where it had been ruled that the organisation had duties towards parties other than just shareholders and the organisation should therefore balance the pursuit of shareholder interests with the interests of other stakeholders.
- **Economic arguments:** In reaction to the “invisible hand” argument which purported that by serving shareholder interest, the organisation would automatically do the greatest good to the greatest number of people, the reality of the situation was that the modern organisation disrupted and polluted the environment and disrupted society, both on a collective and individual level (Rossouw & van Vuuren, 2006). Consequently organisations reaped the benefits of their actions, but were not willing to take responsibility for the consequences of their actions. This had led to organisations being heavily regulated, so as to prevent them from transferring the cost of their actions on to society at large.

The two arguments presented above make it abundantly clear that managers of organisations need to serve the interests of more than only shareholders. According to (Rossouw & van Vuuren, 2006) managers:

- have an obligation not to violate the legitimate rights of others, and
- are responsible for the effects of their actions on others

Different literature sources reveal that the exact number and labelling of stakeholders differ, with some authors identifying 6 stakeholder groups, but others expanding this to 11 groupings (Griseri & Seppala, 2010; Volberda, Morgan, Reinmoeller, Hitt, Ireland & Hoskins, 2011;

Carroll, 1999; Lewis. Goodman & Fandt, 1998) Stakeholders identified by various authors include owners (shareholders), employees, suppliers, customers, environmental groups, media, society, local communities, managers, business partners, trade unions and government. Carroll (1999) provides a classification of stakeholders based on the nature of their relationship with the organisation. Two broad categories of stakeholders are provided (Carroll, 1999):

- **Primary Stakeholders:** Those that have a formal, official or contractual relationship with the organisation
- **Secondary Stakeholders:** Those that are indirectly affected by the activities of the organisation.

Within these groupings one can then identify specific stakeholders.

Critique against the Stakeholder Theory centres around the diverse interests that emanate from these stakeholder groupings. In this regard, Kenneth Goodpaster (1993) purports that if managers cede equality to all interests of these diverse stakeholders, they will be reduced to little more than public institutions. Goodpaster (1993) basically agrees with Friedman in that the primary responsibility managers have is toward those who have invested in the organisation. Therefore, managers have a fiduciary obligation toward shareholders. However, this fiduciary obligation does not have to result in maximising profits at the expense of other stakeholders. In this regard Goodpaster (1993) is of the opinion that the organisation has a moral obligation toward all other stakeholders of the organisation.

### **Corporate citizenship**

Developed in the 1990's from the roots of the Stakeholder Theory, Corporate Citizenship (CC) endeavours to (Van Marrewijk, 2003:98): "*...connect business activity to the broader social accountability and service for mutual benefit*".

This view equates the business enterprise to a member of society, with rights and accompanying obligations that it should be subservient to (Waddell, 2000). As such, CC is a view that impresses characteristics of a person upon the business organisation. By "person", it must be stressed that the organisation cannot be a natural person, as it is not a living entity but a social construct. However, "person" refers to legal personality, with the organisation exhibiting characteristics such as entering into contracts, and the ability to negotiate and be

accountable for its actions. This, in turn, translates into a host of rights, obligations and responsibilities that the business, as legal person, needs to adhere to.

Although Friedman (1970) does purport that the only responsibility a business organisation has is to maximise profit, he does concede that an organisation is a social construct and, as such, has characteristics associated with humans ascribed to it. He does, however also stress that these are done on behalf of the organisation and not by the organisation.

Criticism of the suitability of the term Corporate Citizenship aside, the fact of the matter is that the notion CC exists, whether within the organisation or in the eye of their various stakeholders. As such, stakeholders have certain expectations of business organisations in terms of “doing the right thing”. Certainly, one would assume that organisations are not oblivious to these expectations; but the extent to which these expectations are fulfilled is debatable.

## **CONCEPTUAL MODEL EMPLOYED IN THIS STUDY**

This study considered whether Business and Management students were of the opinion that organisations acted in an ethical manner or not; in other words, the basic “Do they practise what they preach?” question. In this regard it would be prudent to consider the behaviour organisations exhibit towards their stakeholder groupings, as this would represent an obvious manifestation of the ethical conduct of organisations. From the preceding literature review, however, it is apparent that numerous stakeholder groups exist, and that the exact number of stakeholders can differ from organisation to organisation. Consequently the decision was made to collapse certain groupings together and to use five stakeholder groups, namely:

- The environment (including environmental groups)
- Staff (encompassing employees and managers)
- The community at large (encompassing society and local communities)
- Regulators
- Competition (focusing on the whole competitive landscape)

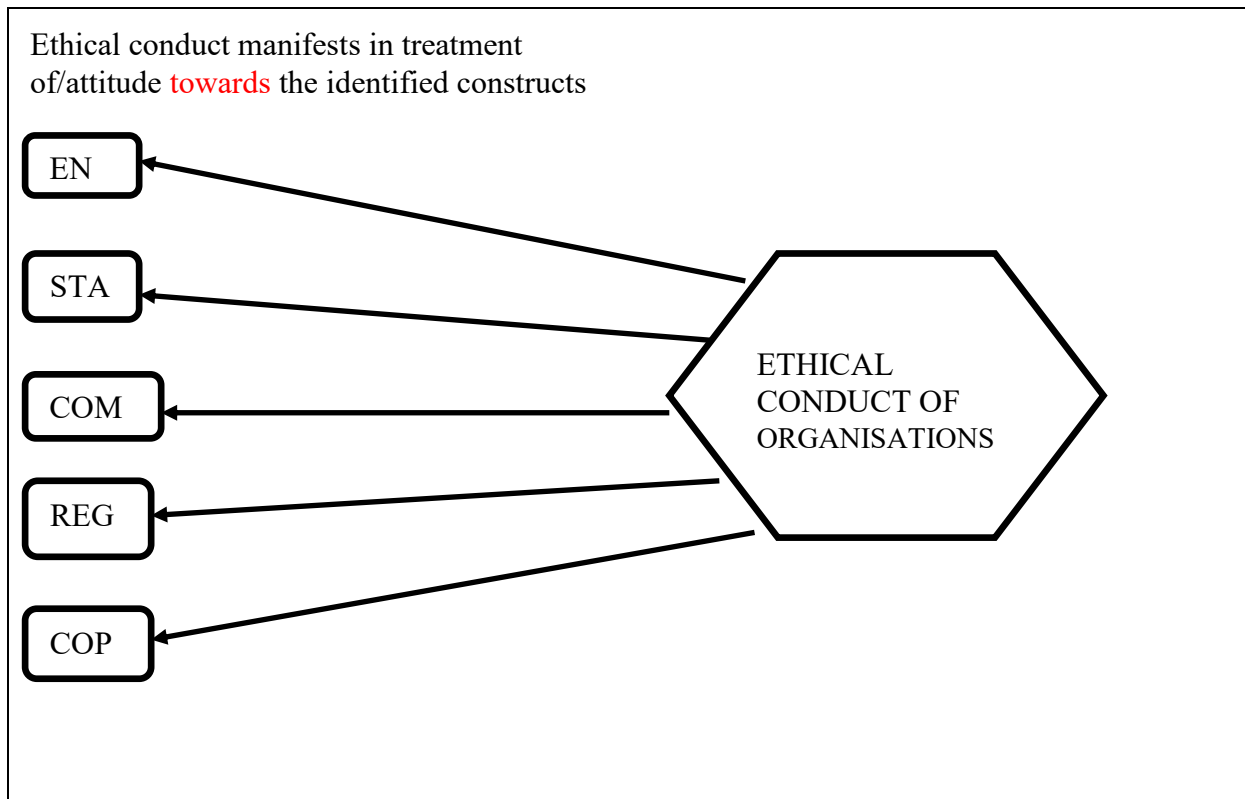
Shareholders have not been included as one of the stakeholder groups in this study, as the crux of stakeholder theory and corporate citizenship revolves around the way an organisation

treats the stakeholders towards whom the organisation has a moral obligation. Within the broader debate around business ethics, it is implicit that the organisation acts responsibly towards shareholders. The burning issue is the ethical conduct exhibited to non-shareholder interest groups. Therefore, from these groups identified, the study endeavours to test the following hypotheses towards these constructs:

- Ethical conduct towards the environment (**ENV**)  
*H1*: Organisations do not act in the best interests of the environment  
*Alternative hypothesis*: Organisations act in the best interest of the environment
- Ethical treatment of staff (**STA**)  
*H2*: Organisations do not act in the best interests of staff  
*Alternative hypothesis*: Organisations act in the best interests of staff
- Ethical conduct toward the community at large (**COM**)  
*H3*: Organisations do not act in the best interests of the broader community  
*Alternative hypothesis*: Organisations act in the best interests of the broader community
- Ethical conduct toward regulators (**REG**)  
*H4*: Organisations are not committed to being good corporate citizens  
*Alternative hypothesis*: Organisations are committed to being good corporate citizens
- Ethical conduct in competition (**COP**)  
*H5*: Organisations do not compete fairly  
*Alternative hypothesis*: Organisations compete fairly

These constructs can be portrayed as follows in a conceptual model as seen below:

Figure 1: Conceptual model of manifestations of ethical behaviour by organisations



To test these hypotheses, data were collected through a questionnaire from a convenient sample of 250 third year undergraduates and post-graduates from the University of Johannesburg. The five hypotheses were tested and the results of the findings are presented below.

### **PURPOSE OF THE STUDY**

From the overview of the literature, it is evident that much is being done within organisations to act ethically. This, however, poses a problem, as acting ethically and being ethical imply two different things. The litmus test would be the way the ethical behaviour of organisations is perceived by parties external to the business organisations.

Consequently, this study endeavours to answer the following research question:

*How do Business and Management students perceive the ethical conduct of business organisations?*

To attempt to answer the stated research question, **the primary objective of this study is:**

*To measure the opinion of Business and Management students as to the ethical conduct of business organisations..*

The benefit of this study lies therein that much literature on Business Ethics/Corporate Social Investment/Corporate Citizenship focuses on what should be done, and has been done from the organisational point of view to promote ethical behaviour. However, not much literature exists on the perceptions of people of the ethical behaviour of business organisations. This study therefore attempts to shed more light on how people perceive the ethical behaviour of business organisations as corporate citizens

## **METHODOLOGY EMPLOYED IN THE STUDY**

A positivistic paradigm was adopted in order to satisfy the aim of this study. Positivism refers to a research philosophy associated with deductive reasoning, with the ultimate aim of inferring universal principles applicable to a certain research population from a representative sample (Collins & Hussey, 2003).

This study employed an exploratory survey design to collect primary data via a self-administered questionnaire. The measuring instrument was a customised instrument and consisted of two sections. Section A collected the demographic data of the respondents, whereas Section B consisted of items derived from the 5 constructs pertaining to ethical behaviour identified in literature and which form the basis of the conceptual model employed in the study.

### **Research sample**

The research population for this empirical investigation comprised business students at the University of Johannesburg. Students in the first and second year of study were not used, as these students were deemed not to be familiar enough with the notion of business ethics and corporate citizenship.

Final year and post graduate students were pursued in this study, not only because they would have more knowledge on the issues under investigation, but also because there was a greater probability that these students would be employed, and therefore able to comment authoritatively on the ethical conduct exhibited by business organisation.

Although the sample is made up of students, their opinions will be valid to the research owing to the fact that working students have practical experience and therefore in a position to comment authoritatively on the ethical practices and standards they experience in the workplace. Also, people do not function in isolation, and working respondents will also be in a position to comment on ethical behaviour as perceived by other organisations. The criterion of selecting only business and management students (and also final year and postgraduate students) is crucial the study as even those who do not work will have a theoretical knowledge of business ethics and are able to form an opinion in this regard from what they observe around them.

Non-probability sampling, in the form of a quota sample, was employed in this study. A target group of 250 respondents was decided upon. It was felt that a number of 250 represented a number from which statistically relevant conclusions could be drawn. .

### **Data Collection**

As mentioned, the study employed a customised measuring instrument that collected demographic data (Section A) and data pertaining to the five constructs that comprise the conceptual model (Section B). The measuring instrument was administered in March 2010 amongst students on the Bunting Road Campus and Kingsway Campus of the University of Johannesburg. Students who were surveyed included students studying B.Com; B.Tech; B.Com (Hons) and M Com. Student participation was voluntary and surveys were administered directly to lecture venues by a student assistant.

### **Data analysis**

Cronbach-alpha reliability tests were performed on each construct to establish the internal reliability of each of the constructs in the customised measuring instrument. In this context, "reliability" relates to the extent to which a particular data collection approach will yield the

same results when used on separate occasions (Lancaster, 2005). The Cronbach-alpha computation provides an index that is scored between 0 and 1, and a score of 0,7 or higher is deemed reliable (Burns & Burns, 2008), although Vrba (2007) mentions that values of 0.6 – 0.7 represent the lower limits of acceptability. However, Athayde (2003), Nunnally (1978) as well as Scheepers, Bloom and Hough (2008) purport that a threshold of 0.5 is permissible in exploratory research.

Descriptive statistics and frequency distributions were compiled to assess the nature of the normal distributions of each of the constructs. This analysis would illuminate the extent to which Business and Management students perceive the ethical behaviour of business organisations – positive or negative – in terms of the identified constructs. In this regard the mean value of each construct would be analysed against the median value of the measuring instrument. As the scale was coded from 1 = Always through to 6 = Never, the median value is 3.5. Thus, any construct mean lower than 3.5 would represent “positive” perception of an organisations ethical conduct, and any construct mean higher than 3.5 would represent “negative” perception of ethical conduct. The choice of a six-point scale was deliberate so as to attempt to discourage notions of central tendency from respondents.

One sample t-tests were also applied to the data in an effort to assess whether the difference between the construct mean and the median value was statistically conclusive. In this regard, when using the measuring instrument as basis of comparison (as explained above) the gathered data was interval. Furthermore the assumption was made that the data gathered would possess a normal distribution

## **FINDINGS RESULTANT FROM THE RESEARCH**

A total of 258 survey questionnaires were gathered. Of these, 251 were usable. Seven questionnaires were discarded because respondents either selected more than one alternative or selected the same answer for all items.

The following statistics related to the profile of the 251 respondents. (Refer to Table 1)

- Gender of the respondent
- Age of the respondent
- The highest business or academic qualification of the respondent



- Employment status of the respondent
- Years of employment experience

Table 1: Demographical statistics

Variable	Respondents
Total usable questionnaires	251
Gender: Male	117
Female	134
Age: Under 20	6
21 – 30	188
31 – 40	45
41 – 50	10
Above 50	2
Highest Qualification: High School	30
Post School Certificate / Diploma	43
Degree	139
Post Graduate degree	33
More than one post-graduate degree	6
Employment status: Not employed	69
Employed part-time	55
Permanently employed	127
Employment record: No experience	54
Less than 5 years' experience	107
Between 5 and 10 years' experience	45
More than 10 years' experience	45

**Gender:** 117 males and 134 females. This represented a fairly even distribution in terms of gender.

**Age:** 93% of the respondents fell between 21 and 40 years of age, with the overwhelming majority in the 21 -30 age group. Only 5% of the respondents were 41 years and older.

**Qualifications:** 221 respondents (88%) of respondents possessed a tertiary qualification, thereby satisfying the objective of pursuing respondents with theoretical knowledge on the

subject of business ethics. It must be remembered that even those whose highest qualification was high school, were students in their third year of study.

**Employment status and experience:** 182 respondents were employed. This is a crucial factor, as the respondents had experience of the working world and could therefore express valid opinions as to the ethical behaviour of business organisations. In terms of experience, 78,4% of the respondents had work experience which further underscores that the sample surveyed were in a position to express valid opinions concerning the ethical conduct of organisations.

### **Reliability of the measuring instrument**

Table 2 indicates the Cronbach's Alpha values per construct. With the exception of Ethical conduct toward competition (COP), the Cronbach's Alpha values range between 0.631 and 0.793. This is quite satisfactory for exploratory research, as Scheepers, et al. (2008) and Nunally (1978) suggest that a value of  $\alpha > 0.5$  is acceptable for exploratory research

Table 2: Chronbach's alpha values per construct

<b>Construct</b>	<b>Chronbach's Alpha</b>
ENV	0.631
STA	0.675
COM	0.743
REG	0.793
COP	0.315

Owing to an alpha value of only 0.315, the construct COP was discarded as the results for this construct were deemed unreliable.

### **Frequency distribution results for section B of the questionnaire.**

According to De Vos et al. (2001: 204) the first, most elementary type of summary and display of data collected on one variable which is used very often, is that of frequency distribution. Frequency distribution therefore arranges the data in an orderly fashion so that visual analysis can be made and to provide a convenient structure for simple computation.

Descriptive statistics, such as the mean, standard deviation and range, were calculated for the survey. However, the mean for each construct is of immediate importance, as this is an indicator of the opinion respondents harboured toward a construct

Five items constituted the first construct “**Ethical conduct toward the environment**” (ENV), which reviewed the attitudes and practices of organisations towards the environment. The majority of the respondents indicated agreement with the statements regarding ethical conduct as **seldom**. The mean value for this construct was 4.1535, which represents a 0.6535 deviation to the “negative” opinion side of the scale. The above frequency distribution for ethical conduct is indicated in Table 3 below

**Table 3: Frequency distribution:** Ethical conduct toward the environment (ENV)

Item	Always	Very Often	Often	Seldom	Very Seldom	Never
1 – Do you think that organisations are serious about protecting and caring for the environment?	3	18	83	109	32	6
3 – Do you think that organisations dedicate a lot of resources to eliminate wastage and pollution?	2	16	49	102	71	10
11 - Does society believe that organisations act in the best interests of the environment?	2	14	60	119	43	12
13 - Do you think that organisations will only act in the best interest of the environment if it promotes their business?	46	90	75	26	8	3
21 - Do you think that organisations put the interests of the environment above the interests of their shareholders?	3	6	30	54	93	64

Construct two was “**Ethical treatment of the staff**” (STA). The four items that comprised this construct amounted to the ethical treatment of employees in organisations. The majority of the respondents indicated this section as **often** as shown in Table 4 below. The mean value for this construct was 3.4748, equating to a 0.0252 deviation to the “positive” opinion side of the scale

**Table 4: Frequency distribution: Ethical treatment of staff (STA)**

<b>Item</b>	<b>Always</b>	<b>Very Often</b>	<b>Often</b>	<b>Seldom</b>	<b>Very Seldom</b>	<b>Never</b>
4 – Do you think that organisations require staff to perform tasks that they are not comfortable with?	12	47	96	61	28	7
6 – Does society perceive organisations to act in the best interests of their employees?	3	16	82	102	41	6
8 – Do you think that organisations value the efforts of their staff in terms of the work they do?	2	41	108	64	33	2
10 – Do you think that organisations care about the well-being of their staff?	5	37	101	82	23	2

The third construct “**Ethical conduct towards the community at large**” (COM) consisted of six items which gathered opinion of social and ethical responsibility toward the broader community within which the organisation functions. The majority of the respondents indicated this section as **often**, as can be seen in Table 5. The mean value for this construct was 3.4268, representing a 0.0732 deviation to the “positive” opinion side of the scale.

**Table 5: Frequency distribution: Ethical conduct towards the community (COMM)**

Item	Always	Very Often	Often	Seldom	Very Seldom	Never
12 – Do you think organisations commit time and resources (i.e. take action) to the social challenges society faces (such as crime and HIV-AIDS)?	2	34	87	77	42	8
14 – Does society perceive organisations to act in the best interest of society?	3	8	78	123	33	4
16 – Do you think that organisations commit time and resources (i.e. take action) to the economic challenges society faces (such as unemployment and the impact of poverty)?	2	18	71	114	42	3
20 – Do you think that organisations are aware of the social challenges society faces (such as crime and HIV-AIDS)?	50	79	70	27	20	3
22 – Do you think that organisations care about the difficulties faced by their communities?	2	10	62	108	54	13
25 - Do you think that organisations are aware of the economic challenges society faces (such as unemployment and the impact of poverty)?	41	49	82	47	26	5

The fourth construct was “**Ethical conduct towards regulators**” (REG) and consisted of five items which surveyed ethical conduct, attitudes and practices towards regulatory bodies that govern the practices and intentions of organisations. The majority of the respondents

indicated this section as **seldom**, as can be seen in Table 6. The mean value for this construct was 3.6511, which represents a 0.1511 deviation to the “negative” opinion side of the scale

**Table 6: Frequency distribution: Ethical conduct towards regulators. (REG)**

<b>Item</b>	<b>Always</b>	<b>Very Often</b>	<b>Often</b>	<b>Seldom</b>	<b>Very Seldom</b>	<b>Never</b>
7 – Do you think that organisations are “citizens” of society and, therefore, act as good citizens?	1	22	82	99	42	5
9 – Do you trust organisations’ intentions of acting ethically?	0	28	87	90	37	8
17 – Do you think that an organisation is only accountable toward it’s shareholders?	34	54	67	33	27	34
18 – Do you think that organisations are truly committed to being good corporate citizens?	3	23	95	100	27	2
24 – Do you think people in general trust organisations’ intentions of acting ethically?	5	18	82	87	46	12

The last construct, “**Ethical conduct in competition**” (**COP**), was deemed to be internally unreliable and the construct was discarded.

To summarise, the mean values and the resultant deviations for each construct are portrayed in Table 7.

Table 7: Mean values per construct

Construct	Mean value	Deviation from measuring instrument
ENV	4.1535	-0.6535
STA	3.4748	0.0252
COM	3.4268	0.0732
REG	3.6522	-0.1522
COP	N/A	N/A

### Hypothesis testing

To prove that these “positive” and “negative” deviations identified above are statistically significant and would therefore represent meaningful opinion portrayed by the sample, the findings are subjected to one sample t-tests. By applying this statistical intervention, the hypotheses contained in the conceptual model will therefore be tested.

In applying this t-test, one endeavours to pursue a high significance level, and in this case it will be 95% (thus p values must be smaller than 0.05). Furthermore, together with the p-value, the t-value must be more than 2 (positive or negative) for the construct to be deemed statistically significant

ENV and OWN have t values of larger than 2 and significance levels of  $<0.05$ , as can be seen in Table 8. Therefore these two constructs are statistically significant in terms of the difference between their means and the measuring instrument employed. This does not mean that the difference for STA and COM from the median is incorrect, but rather that the difference has no statistical significance.

Table 8: One sample t-test

		Test Value = 3.5					
		T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
						Lower	Upperr
South Africa	Env	15.936	250	.000	.65345	.5727	.7342

Staff	-.541	250	.589	-.02523	-.1171	.0667
Comm	-1.639	250	.102	-.07317	-.1611	.0148
Own	3.183	250	.002	.15106	.0576	.2445

## CONCLUSION

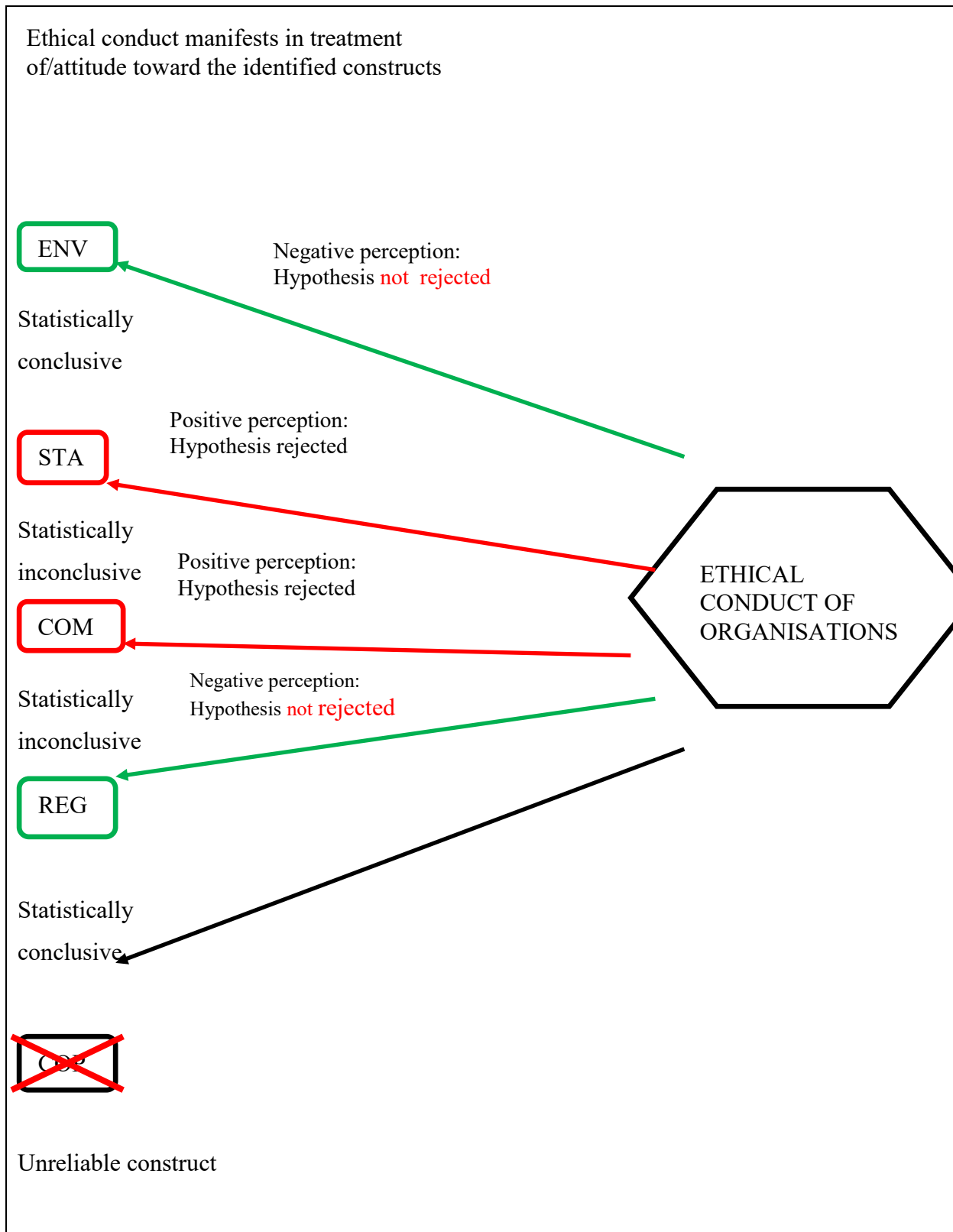
After the statistical analysis has been done, the following can be concluded as far as the stated hypotheses and alternative hypotheses are concerned:

- **Ethical conduct toward the environment (ENV):** Accept the hypothesis and reject the alternative hypothesis
- **Ethical treatment of staff (STA):** Reject the hypothesis but do not accept the alternative hypothesis
- **Ethical conduct toward the community (COM):** Reject the hypothesis but do not accept the alternative hypothesis
- **Ethical conduct toward regulators (REG):** Accept the hypothesis and reject the alternative hypothesis
- **Ethical conduct in competition (COP):** Inconclusive, as the construct was deemed unreliable



Therefore, the conceptual model can be confirmed as in Figure 2.

Figure 2: Confirmation of conceptual model



It is clear that the ethical conduct of organisations towards the physical environment (ENV) and their ethical conduct towards regulatory bodies (REG) were severely questioned by those included in this study. Consequently, as far as the environment and regulatory bodies are concerned, people seem mistrusting of organisation's intentions legally comply and serve the interests of the environment. It would seem as though people firmly believe that organisations act – first and foremost – in their own interest. Especially in terms of the physical environment, the sentiment is very negative in this regard.

As far as the ethical conduct of organisations towards staff (STA) and the broader community (COM) is concerned, findings revealed that the individuals surveyed had a more lenient view. However, these findings are not statistically conclusive. This does not mean that what was reflected in the questionnaires was necessarily incorrect; it merely means that we cannot prove – from the data generated – that this sentiment is in fact positive.

As far as ethical construct in competition (COP) is concerned, the Cronbach's Alpha reliability test revealed that the findings forthcoming from this construct could not be deemed as valid and were therefore discarded from the study. This does not imply that the issue of ethical conduct in competition is not of importance, but rather that the way the items pertaining to that specific construct were formulated was not properly understood by respondents.

## **RECOMMENDATIONS AND MANAGERIAL IMPLICATION**

From this study, it is evident that there is a disconnect between what organisations are professing to be doing in terms of ethical conduct toward different stakeholders, and how students perceive these actions, hence the following recommendations:

A business is able to sustain itself by having managers and employees who are able to act morally and ethically. Managers must recognize and acknowledge the dignity and human rights of all stakeholders. It is necessary to formulate ethical codes so as to keep employees on a sound moral course and to maintain high ethical standards. Moral values cannot be disregarded as these drive honesty and make way for strong social inclusiveness. Managers and employees need sets of values to guide their conduct and should be involved in the formulation of these codes. This needs to be collaborative process.

Companies should develop sustainable partnerships with their communities and companies must honour their moral obligation to society, the environment and all other stakeholders in their business.

People often think of ethics as a list of rules, such as the Ten Commandments. The assumption is then that if something is not expressly prohibited, there is no need to worry about ethics. However moral behaviour is the obligation to look beyond self-interest and to focus on the concerns of others.

Although idealistic, ethics should form an integral part of undergraduates' study in Business and Management as this would hopefully lay the foundation for moral behaviour amongst future business leaders.

The study also indicates that respondents had a negative perception about ethical conduct of business organisation, in general. Therefore organisations should highlight instances where the organisation has taken the moral high ground in their business dealings. This in turn will be a benefit and could be incorporated in the corporate marketing strategies of organisations.

## **LIMITATIONS AND AREAS FOR FUTURE RESEARCH**

The most obvious limitation of the study is the fact that the sample was drawn from one specific location. Therefore the findings are not representative on a national level, but reflect only the views of those who participated in the study. However, on an exploratory level, the findings remain insightful. Also, the sample was drawn from the ranks of students studying some form of Business Management qualification. It could therefore be argued that surveying respondents on a topic related to their field of study could lead to some level of response bias. Attitudes of students not studying Business Management could therefore have been different, but then again, students not in the field of Business Management might not be familiar with the notion of business ethics at all.

As an exploratory study, the measuring instrument needs refinement. Working on the reliability of the measuring instrument highlighted that certain items need to be excluded and other items need their alternatives reversed. Also, the construct of ethical conduct in competition (COP) needs to be totally redesigned. This highlights the difficulty in measuring the concept of competition, as the concept has different meanings for different people.

Also, the study needs to be taken wider, not only on a local level, but also on an international level. Collecting data from numerous countries could show the sentiment toward the ethical intentions of organisations in different parts of the world.

There are many reasons why businesses may act unethically. Greed and the total disregard for business codes of conduct are but two reasons. In Africa, some managers are simply not willing to transform their enterprises in terms of ethical practice, and thus disregard what is in essence managerial wisdom in practice. According to the United Nations, corruption is rife in most African countries and this fact undermines the prospects for economic investments on the continent by foreign firms. Further research should be undertaken as to the implementation of good ethical principles.

## **CONCLUDING REMARKS**

It would seem, from this study at least, that there is evidence to suggest that people perceive the ethical conduct of organisations in a negative light. This does not bode well for organisations in an era when the role and function of the organisation as an entity that can contribute positively to society has been seriously questioned. Rossouw and Van Vuuren (2006) quote six myths as far as business ethics are concerned, These include the myth that the organisation pursues profit at all cost. However, based on what has been revealed here – although exploratory – the evidence suggests that these types of myths can perpetuate if organisations do not realise what their stakeholders actually think of them

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# **THE RELATIONSHIP BETWEEN PERSONALITY TRAITS AND FACEBOOK INVOLVEMENT – USING THE TIPI MODEL IN A SOUTH AFRICAN CONTEXT**

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## **Keywords:**

Personality traits, Facebook involvement, TIPI Model, South Africa



# **THE RELATIONSHIP BETWEEN PERSONALITY TRAITS AND FACEBOOK INVOLVEMENT – USING THE TIPI MODEL IN A SOUTH AFRICAN CONTEXT**

## **ABSTRACT**

This study investigated how five different personality traits, namely extraversion, agreeableness, conscientiousness, openness to new experiences, and neuroticism influences an individual's involvement on Facebook. By mean of a factor analysis it was found that Facebook utilisation involved the following activities: mass social exchange, mass market exchange, individual exchange, privacy exchange, individual entertainment exchange, and market mechanism security. A two-stage design was developed, asking 200 South Africans between the ages of 18 and 35 about their Facebook involvement. The Ten Item Personality Inventory (TIPI) model, (which is based on the Five-Factor Model), measured an individual's main personality traits. Despite the emergence of some expected trends the results indicated that personality factors were not as influential as previous literature would suggest. The findings of this explorative study will assist the marketers of different social network sites on how to market to individuals with specific characteristics.

## INTRODUCTION

Social network sites, like Facebook, Twitter and MySpace, have become an extremely popular tool for social interaction. In 2007, only three years after Facebook was launched, an estimated 21 million members had a profile on Facebook (Ross, Orr, Sisic, Arseneault, Simmering & Orr, 2009:579). Although the original purpose of Facebook was to allow university students to create and maintain social ties, it is now also used as a marketing tool in most industries, and a communication tool amongst friends.

Recent research done by Student Village (2009) indicates that approximately 90% of all South African students are using the Internet for social purposes a few times a week. This statistic shows that this channel of communication is becoming more incremental to the student population.

Previous research on the involvement and use of the Internet and social network sites has mainly been tested among American and European respondents and little data exists regarding Facebook usage in the southern hemisphere (Bosch, 2009:187). Furthermore, research on Facebook has generally investigated four major trends, namely (1) social networking and social capital, (2) privacy matters, (3) the use of Facebook for educational purposes, and (4) identity construction (Bosch, 2009:189).

A special interest in the relationship between personality traits and network positions has only emerged recently (Wehrli, 2008:2). Although a lot of research has been done on Facebook, little is known about the profile of the user (Evans, Gosling & Carroll, 2008:45). It is evident from these recent publications that a new research trend on the relationship between personality traits and the involvement individuals have with Facebook should surface as a new topic in South Africa. Five personality traits, namely extraversion, openness to new experiences, agreeableness, conscientiousness and neuroticism (emotional stability), that influence people to socialise, will be measured against the involvement individuals have with Facebook.

In this study, Facebook involvement will be broadly defined as the time individuals actively spend on Facebook, the number of friends individuals have on Facebook as well as the utilisation of Facebook.

The core research questions to be addressed in this study are to determine how an individual's characteristics influence their involvement with Facebook. Thus, the paper's central research statements are:

- 1) There is a positive relationship between the extraversion trait and mass social exchange on Facebook
- 2) There is a positive relationship between openness to new experiences trait and market exchange on Facebook
- 3) There is a negative relationship between the conscientiousness trait and the time an individual actively spends on Facebook
- 4) There is a positive relationship between the agreeableness trait and online social exchange on Facebook
- 5) There is a positive relationship between emotional stability and the number of friends an individual has on Facebook

The data collection was done by means of a survey based on the Ten Item Personality Inventory (TIPI) Model, which is based on the Five Factor Model. This model, together with the different Facebook utilisation options that a respondent can choose from, was tested among South Africans, aged 18-35.

This paper will firstly review the existing literature relevant to personality as well as Facebook involvement. Secondly the research methodology is presented and data analysis techniques are discussed. Thirdly, the findings are discussed and summarised and the paper concludes with a discussion of managerial implications and direction for further research.

## **LITERATURE REVIEW**

According to Karakas (2009:23) Web 2.0 is defined as "an interactive, hyper-connected, immersive, virtual, digital online ecosystem or mega-platform where users create and share

knowledge, innovate and collaborate together, have fun and entertainment, interact, network and connect with each other, design new products or buy and sell merchandise, connect and communicate globally, write reflection blogs, share photos, podcast presentations, develop projects and express themselves to the worlds.” As a result of the rise of Web 2.0 a technological paradigm shift has led to extensive transformations in the behaviour of consumers and organisations in recent years and social networking sites have become increasingly popular (Bosch, 2009:185).

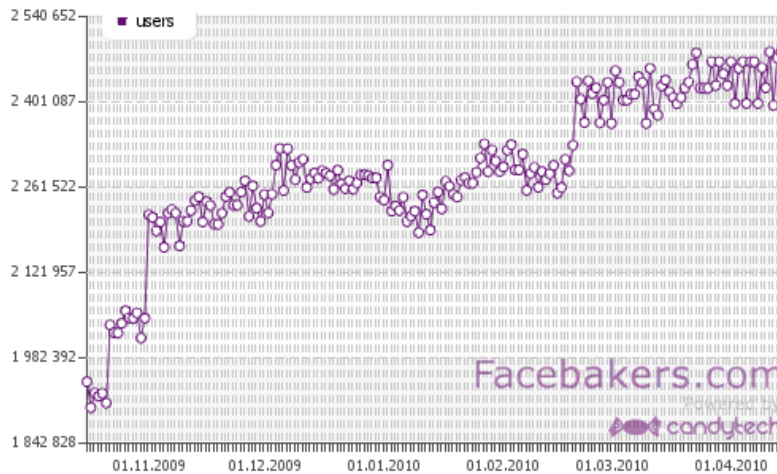
Facebook, a social network site developed by Mark Zuckerberg in 2004 at the University of Harvard, is a computer-mediated social network system that has become one of the most popular means of communication not only in North America, but globally (Ross *et al.*, 2009:579).

This study investigates how different personality traits influence the behaviour of individuals with the social network site, Facebook.

## **FACEBOOK USAGE**

Ranked according to user, user growth and penetration of Facebook the top five countries using Facebook are the United States, United Kingdom, Indonesia, Turkey and France. South Africa scores 29 out of 187 countries according to these rankings (Facebakers, 2010). The number of individuals using Facebook in South Africa is currently 2 437 540. The graph below indicates the user growth of Facebook in South Africa from November 2009 to April 2010.

**Graph 1: User Growth– Facebook South Africa**

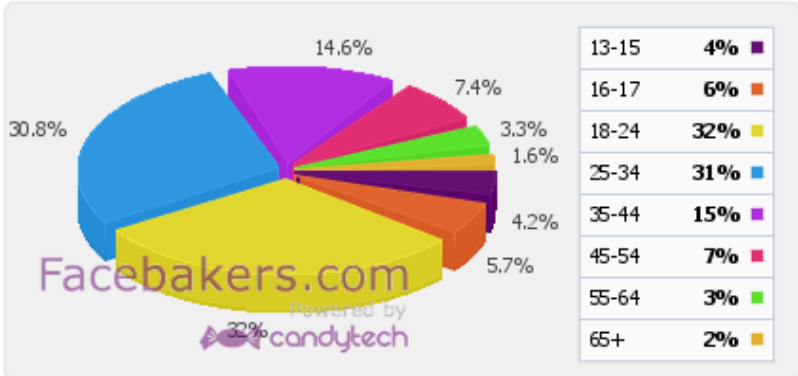


Source: Facebakers South Africa (2010)

It is evident from the graph above that the number of individuals that are using Facebook, are increasing in South Africa. Although other social network sites, like MySpace and Twitter, are also becoming a popular communication and network tool, Facebook is the most widespread of such sites (in terms of number of users) in South Africa and it is therefore relevant to measure an individual's involvement specifically with Facebook (Bosch, 2009:187).

Individuals aged 18-24 and 25-35, which represent 32% and 31% of the Facebook population respectively, are the most popular ages that use Facebook in South Africa (Facebakers, 2010). Seeing that these two age groups are more involved with Facebook than other age groups, this paper focuses on these specific two age groups. The graph below indicates the user age distribution of Facebook in South Africa from November 2009 to April 2010.

**Graph 2: User age distribution – Facebook South Africa**



Source: Facebakers South Africa (2010)

Bearing in mind the diverse information that is shared amongst Facebook friends (such as romantic relation initiation, work-related contexts, connecting with those with similar interests, et cetera.) (Ellison, Steinfield & Lampe, 2007:1) it does not appear that Facebook members are highly concerned with privacy.

**PERSONALITY AND FACEBOOK**

Five major personality traits have been identified in the last few decades which have formed a broad consensus on the structure of the personality trait domain (Hendriks, Hofstee & De Raad, 1999:307). These five factors can be measured by The Five Factor Model (“Big 5”) that was developed by Goldberg in 1990, which has received empirical support and consists of extraversion, openness to new experiences, conscientiousness, agreeableness and neuroticism (emotional stability) (Wehrli, 2008:3). Ross *et al.* (2009:579) found that extraversion and openness to novel experiences play a significant role in social media engagement. These five personality traits relate to people’s behaviour in a broad variety of social contexts and will be discussed briefly (Wehrli, 2008:3):

**Extraversion**

Individuals that possess a high level of extraversion are outgoing, active, assertive, talkative and engage in social interaction. It is assumed that Facebook members with high levels of extraversion will be very active on Facebook, including doing activities such as to comment on Facebook status updates, use the chat option to converse with online friends and using the

site as a tool to keep in touch with friends. According to a South African study, 62% of Facebook users are updating their status, and 61% are uploading videos or photographs and searching for someone on the site (Anon: 2010). Refer to table 1 in order to see which Facebook activities fall under the element of mass social exchange.

Previous research has found that individuals with high levels of extraversion will spend more time on Facebook than members that show a low level of extraversion (introversion) (Wehrli, 2008:5). The reason being that extraverts will show higher levels of being part of a network or community. In contrast, this study may also reveal that individuals with a high level of extraversion may rather want to express themselves offline (in real-life contexts) than online.

Based on the aforementioned discussion, it is hypothesised that:

H1: There is a positive relationship between the extraversion trait and mass social exchange on Facebook

### **Openness to new experiences**

Openness relates to an individual's ability to be inquisitive, innovative, open-minded and to display imagination. Due to the predisposition of people to be curious and desire to explore new activities, it is assumed that these individuals will be using Facebook as a mass market exchange tool. Mass market exchange include activities such as using Facebook as a research tool, to create an event or invitation or to use Facebook to get involved with groups (i.e. charity, political, interests). Refer to table 1 in order to see which Facebook activities falls under the element of mass market exchange.

It is therefore, hypothesised that:

H2: There is a positive relationship between openness to new experiences trait and mass market exchange on Facebook

## **Conscientiousness**

This personality trait refers to the extent to which an individual is reliable, cautious, accountable, organised, and has a will to achieve. It is expected that individuals with a high level of conscientiousness will be less active on Facebook and spend less time on Facebook because of their tendency to meet deadlines and be responsible with obligations. Spending time on Facebook may be seen as procrastination or a distraction from their daily tasks (Ross *et al.*, 2009:580).

Ross *et al.* (2009:580) state that there is limited research on the relationship between Facebook interaction and conscientiousness, making this study relevant to the body of knowledge.

It is therefore posited that:

H3: There is a negative relationship between the conscientiousness trait and the time an individual actively spend on Facebook

## **Agreeableness**

A person with high levels of agreeableness is a polite, flexible, trusting, forgiving, and cooperative person who avoids disagreement and fosters peer acceptance. It is assumed that individuals that score high on the agreeableness trait would want to meet new people and would want to learn more about a specific person.

The following hypothesis is thus stated:

H4: There is a positive relationship between the agreeableness online social exchange on Facebook



## **Neuroticism (Emotional stability)**

Anxiety, sadness, embarrassment, depression, guilt, and the inability to cope with stress are all elements of neuroticism. The opposite of neuroticism is emotional stability. It is expected that individuals that score high on neuroticism will have a lot of Facebook friends because they have a tendency to seek online social support (Ross *et al.*, 2009:580).

The following hypothesis is thus stated:

H5: There is a positive relationship between emotional stability and the number of Facebook friends/groups an individual has

## **INVOLVEMENT WITH FACEBOOK**

### **Time individuals actively spend on Facebook**

A key usage factor in this study includes the time individuals actively spend on Facebook. Therefore, the researcher asked respondents in the quantitative phase of the research, how Facebook forms part of their everyday activities as well as how much time per day the individual actively spend on Facebook. A previous South African study revealed that 16% of Facebook users are on Facebook all day, an additional 58% visit the site once a day or more – therefore 74% are accessing Facebook at least once a day (Anon: 2010). These statistics indicate that it is relevant to measure the time individuals actively spend of Facebook.

### **Number of friends on Facebook**

In the quantitative phase of the data collection, the respondent had to indicate how many friends he/she has on Facebook. The respondent also had to indicate the number of active Facebook friends.

## **Facebook utilisation**

(Bosch, 2009:194) points out that Facebook usage is quite varied amongst individuals, for example, it can be used for social purposes, academic conversations, and/or community building. In this study, the main focus is to measure how different personality types socialise on Facebook. Therefore, socialising activities, such as updating profiles, commentating on photos and status updates, the amount of entertainment followed by the user, using the chat option et cetera will be measured in the quantitative phase of the study. This study also measures the privacy concerns, and extent to which an individual does research on Facebook.

## **METHODOLOGY**

The target population for this study consisted of 200 adults (18 years and older) who have a Facebook account. All completed questionnaires were received back and all were sufficiently completed and thus the number of useable questionnaires was 200.

A two-stage design was used in this study and will be discussed separately.

### **Qualitative Questionnaire**

Firstly, this study explored how individuals spend their time on Facebook, i.e. what activities they do on Facebook. A convenience sample of 17 individuals was randomly selected to participate in a qualitative questionnaire. The qualitative questionnaire was uploaded on Survey Monkey, an online survey tool, in March 2010.

A positivist approach, which implies that „frequency is an indication of importance“, was used (Lacity & Janson, 1994:142) for the qualitative analysis. The researcher constructed a categorising system, coded the data, and calculated frequencies in order to develop a quantitative questionnaire. Positivist approaches imply that the meaning of text data is objective in the sense that a text corresponds to an objective reality (Lacity & Janson, 1994:142).

After informing the participant of the different types of personality traits that influences individual's involvement with Facebook, they were asked to identify other traits that they think will influence Facebook involvement. The two most mentioned traits were curiosity and low self-esteem. Other personality traits included shyness, jealousy, neediness, confidence, boastfulness and friendliness. According to the researcher, the abovementioned characteristics fall under the five main categories of the Five Factor Model and will therefore not be elaborated on in the structured questionnaire.

After collecting the data of the six open-ended questions regarding how individuals spend their time on Facebook, a quantitative questionnaire was formulated with response options derived from the findings in the qualitative questionnaire.

### **Quantitative Questionnaire**

The second phase of the data collection involved a quantitative questionnaire. The Ten-Item Personality Inventory (TIPI) Model (Gosling, Rentfrow and Swann:2003:504), which is based on the Five-Factor Personality Inventory Model (FFPI) was used in this study. The Five Factor Model measures five personality traits, namely extraversion, openness to new experiences, conscientiousness, agreeableness and neuroticism (emotional stability). According to Gosling *et al.* (2003:504) „the TIPI instrument reached adequate levels of convergence with widely used five factor measures, test-retest reliability, patterns of predicted external correlates, and convergence between self and observer ratings“.

While the TIPI model was used to measure individuals' personality traits, a 5-point Likert-type summated rating scale was used to measure the degree of importance/involvement an individual has with Facebook.

### **Measurement**

The main constructs that were measured were the dominant personality traits, and Facebook involvement. The demographic questions in the qualitative instrument are:

1. Gender
2. Ethnicity
3. Age
4. Nationality

### **Personality Traits**

According to Gosling *et al.* (2003: 504) the TIPI model can be used to assess a respondent's main personality traits (See Annexure C). In order to identify an individual's main personality trait, the respondent had to indicate to what extent he/she agreed or disagreed with a specific statement. Furthermore, ten statements were given to the respondent and the respondent had to choose the most appropriate statement that fits to her/his personality.

### **Facebook involvement**

Facebook utilisation was divided into six sub dimensions with 22 activities divided between the six dimensions. The table below provides a description of the activities of each of the six sub dimensions of Facebook utilisation.

**Table 1: Elements and activities of Facebook utilisation**

<b>Element of Facebook utilisation</b>	<b>Activity</b>
Mass social exchange	<ol style="list-style-type: none"><li>1. I comment on Facebook photos</li><li>2. I comment on Facebook status updates</li><li>3. I keep in touch with family and friends living far away via Facebook</li><li>4. Facebook is part of my everyday activity</li><li>5. To be reminded of friends' birthdays</li><li>6. To regularly update/communicate my status</li><li>7. To keep in touch with my old friends</li><li>8. To use the chat option to converse with online friends</li></ol>
Mass market exchange	<ol style="list-style-type: none"><li>9. To feel that I am part of a community</li><li>10. To do research on a company/brand</li><li>11. For business purposes</li><li>12. To create an event invitation</li><li>13. To inform friends about a party</li><li>14. I use Facebook to get involved in groups (i:e charity, political, interests)</li></ol>
Individual social exchange	<ol style="list-style-type: none"><li>15. To check out someone I met socially</li><li>16. To learn more about other people in my group</li><li>17. To meet new people</li></ol>
Privacy exchange	<ol style="list-style-type: none"><li>18. I provide my cell phone number on Facebook</li><li>19. I provide my email address on Facebook</li></ol>
Individual entertainment exchange	<ol style="list-style-type: none"><li>20. to play games</li><li>21. I only use Facebook as a communication tool (information exchange)</li></ol>
Market mechanism security/trust	<ol style="list-style-type: none"><li>22. I am concerned about the privacy/security of Facebook</li></ol>

A Likert-type scale with five scale points, ranging from 5 (strongly agree) to 1 (strongly disagree), and 22 statements regarding Facebook involvement (which can be seen in the table above) was used in the quantitative questionnaire.

The respondent was given six options to choose from in order to indicate how much time he/she actively spends time on Facebook.

Furthermore, the number of friends the respondent has on Facebook was also a required response.

## RELIABILITY ASSESSMENT

The internal consistency reliability (Cronbach's alpha) was interpreted by output tables generated by SPSS. The internal consistency reliability (Cronbach's alpha) for the four major sub dimensions of Facebook utilisation, is shown in table 2 below.

**Table 2: Cronbach's alpha for the sub-dimensions of Facebook**

Sub-dimension of Facebook utilisation	Items	Cronbach's alpha
Mass social exchange	1 to 8	0.884
Mass market exchange	9 to 14	0.807
Individual social exchange	15 to 17	0.682
Privacy exchange	18 to 19	0.74

Gliem and Gliem (2003:87), points out that a 0.7 Cronbach's alpha and above is acceptable. Therefore the four sub-dimensions of Facebook utilisation in the table above are acceptable. Although the Cronbach's alpha for individual social exchange is 0.682, it can be rounded up to 0.7 – making the reliability for individual social exchange acceptable.

## RESULTS

The purpose of this study was to explore whether there was a relationship between personality traits and Facebook involvement. In order to measure Facebook involvement, individuals were tested on the time they actively spend on Facebook, the number of friends they have on Facebook and Facebook utilisation. Facebook utilisation was divided into six sub components. A factor analysis was used to reduce the dimensions of a multivariate data set in order to summarise the data.

**Table 3: Results of Principal Component Factor Analysis**Rotated Component Matrix<sup>a</sup>

	Component					
	Mass social exchange	Mass market exchange	Individual social exchange	Privacy exchange	Individual entertainment exchange	Market mechanism security/trust
I comment on Facebook photos	0.838					
I comment on Facebook status updates	0.820					
I keep in touch with family and friends living far away via Facebook	0.783					
Facebook is part of my everyday activity	0.727					
To be reminded of friends' birthdays	0.699					
To regularly update/communicate my status	0.642					
To keep in touch with my old friends	0.629					
To use the chat option to converse with online friends	0.537					
To feel that I am part of a community						
To do research on a company/brand		0.806				
For business purposes		0.754				
To create an event invitation		0.553				
To inform friends about a party		0.549				
I use Facebook to get involved in groups (i.e. charity, political, interests)		0.542				
To check out someone I met socially			0.801			
To learn more about other people in my group			0.752			
To meet new people						
I provide my cell phone number on Facebook				0.852		
I provide my email address on Facebook				0.667		
To play games					0.767	
I only use Facebook as a communication tool (information exchange)						
I am concerned about the privacy/security of Facebook						0.848

Factor loadings smaller than 0.30 are not displayed

Factor loadings in absolute size greater than 0.30 are considered significant; loadings of 0.40 are considered more important; and if the factor loadings are 0.50 or greater, they are considered very significant (Hair, Anderson, Tatham & Black, 1992:225). It is evident from the Table 3 that all the factor loadings are greater than 0.50 and are therefore highly significant.

## HYPOTHESES TESTING

The researcher posited five one tailed (directional) hypotheses that were tested at a 5% level of significance (i.e.  $\alpha=0.05$ ). Table 4 provides the descriptive statistics and the results of the tests.

H1: There is a positive relationship between the extraversion trait and mass social exchange on Facebook

The one-tailed p-value of 0.108 is larger than the significant level of 0.050. H1, therefore, is not supported by the data. Therefore H1 is rejected and it cannot be assumed that there is a positive relationship between extraversion and Facebook activities such as commenting on Facebook photos and status updates, to use the chat option on Facebook and to keep in touch with family and friends living far away, etc. (refer to table 1 for the activities involved with the component social exchange”).

H2: There is a positive relationship between openness to new experiences trait and market exchange on Facebook

The one-tailed p-value of 0.010 is smaller than the significant level of 0.050. H2, therefore, is supported by the data and is tenable.

Openness relates to an individual’s ability to be inquisitive, innovative, open-minded and to display imagination. The p-value for social exchange (0.010), active daily involvement (0.016) and the number of Facebook friends an individual has (0.003) for the construct openness to new experiences were all significant.

Cohen (Cohen: 1992) gives the following guidelines for the social sciences: small effect size,  $r = 0.1 - 0.23$ ; medium,  $r = 0.24 - 0.36$ ; large,  $r = 0.37$  or larger. The  $r$  for this hypothesis is 0.164 and is therefore small.

H3: There is a negative relationship between the conscientiousness trait and the time actively spent on Facebook



The one-tailed p-value of 0.97 is larger than the significant level of 0.050. H3, therefore, is not supported by the data and is rejected.

H4: There is a positive relationship between the agreeableness online social exchange on Facebook

The one-tailed p-value of 0.98 is larger than the significance level of 0.050. H4, therefore, is not supported by the data and is rejected.

The p-value of 0.017 for individual social exchange is smaller than 0.05 and is therefore significant. The activities involved with individual social exchange include „checking out someone the individual met socially, to learn more about other people in his/her group and to meet new people“. A person with high levels of agreeableness is a polite, flexible, trusting, forgiving, and cooperative person who avoids disagreement and foster peer acceptance. Due to the predisposition of people to avoid disagreement, the above stated p-values support the latter statement.

H5: There is a positive relationship between emotional stability and the number of friends an individual has on Facebook

The one-tailed p-value of 0.096 is larger than the significance level of 0.050. H5, therefore, is not supported by the data and cannot be accepted.

**Table 4: Pearson correlation coefficients**

<b>Pearson Correlation Sig. (1-tailed)</b>	Mass social exchange	Mass market exchange	Individual social exchange	Privacy exchange	Individual entertainment exchange	Market mechanism security/trust	D1: Daily involvement	E1: Number of Facebook friends	E2: Number of active Facebook friends
Extraversion	0.088 0.108	0.076 0.141	-0.002 0.487	0.110 0.060	0.067 0.174	-0.062 0.191	-0.018 0.399	0.050 0.242	0.059 0.210
Openness to Experiences	0.166** 0.009	0.164* 0.010	0.163* 0.010	0.060 0.200	0.002 0.491	0.017 0.404	0.153 0.016	0.199** 0.003	0.067 0.179
Conscientiousness	0.010 0.446	0.046 0.260	-0.086 0.114	-0.018 0.401	-0.022 0.380	-0.001 0.496	-0.093 0.097	-0.039 0.295	-0.075 0.150
Agreeableness	0.001 0.494	-0.057 0.212	-0.150* 0.017	0.085 0.116	-0.013 0.427	-0.098 0.084	-0.081 0.128	-0.093 0.098	-0.026 0.363
Emotional stability	-0.057 0.212	0.054 0.223	-0.134* 0.030	0.037 0.301	-0.042 0.278	-0.097 0.085	-0.102 0.077	0.093 0.096	0.029 0.343

\*\* Correlation is significant at the 0.01 level (1-tailed)

\* Correlation is significant at the 0.05 level (1-tailed)

## DISCUSSION

This study investigated the relationship between Facebook involvement and five different personality traits. To the researcher's knowledge, it is the first study that demonstrates this relationship in a South African context.

Surprisingly, there was not a positive relationship between extraversion and mass social exchange on Facebook. In the results revealed by Ross *et al.* (2008:582) extraversion was not associated with the number of Facebook friends. This study supports this result, as the p-value for the number of friends is 0.242.

As was predicted by the researcher, openness to new experiences was found to be related to mass market exchange on Facebook. This finding support the study of Ross *et al.* (2008:582) that found that openness to new experiences related to online sociability – specifically, a keenness to consider alternative methods of communication was found to be important in Facebook use. Interestingly, the activities which fall under the element of mass market exchange in this study (namely to do research on a company/brand, to create an event invitation, etc.) are also alternative methods of communication.

The researcher anticipated that there would be a negative relationship between the conscientiousness trait and the time an individual actively spend on Facebook. Conscientious people have a tendency to meet deadlines and be responsible with obligations; therefore spending time on Facebook would be seen as procrastination to them, but the results did not support this hypothesis. This study supports that of Ross *et al.* (2008:582) which showed that the conscientious trait would be negatively related to Facebook in order to balance academic or work requirements, but it was not a significant factor in any of the analysis.

The fourth hypothesis, namely that there is a positive relationship between the agreeableness online social exchange on Facebook, as well as the fifth hypothesis, namely that there is a positive relationship between emotional stability and the number of friends an individual has on Facebook, were both not supported by the data.

An unanticipated outcome from this study is that there was relatively little significance in the findings relating to the five different personality traits. A reason could be that the TIPI

measurement tool may be too broad a measurement tool for measuring personality traits, or that Facebook represents a new offline-to-online Social Networking System (Ross *et al.*, 2008:582).

## LIMITATIONS

One of the limitations of the study is that the researcher did not investigate the effect of an individual's years involved with Facebook. For instance, it is assumed by the researcher that a person that scores high on the openness to new experiences trait may have been very involved, i.e. spend a lot of time and participate in activities, on Facebook in the individual's initial stage of being a Facebook member. In contrast, it is assumed that the same individual, whose predisposition is to be curious and have a desire to explore new activities, may get bored with Facebook if he/she has had an account with Facebook for a long period of time. Therefore, it is necessary to measure the involvement of an individual with Facebook with regards to the period that the individual has been a Facebook member.

Not only is the individual's life cycle on Facebook important, i.e. the time an individual has an account with Facebook, but also the life cycle of Facebook itself. As mentioned, Facebook was established in 2004, and is now in its maturity stage of its life cycle. It is assumed by the researcher that a person that has high levels of openness to new experiences may not be as involved with Facebook because it is not a new phenomenon; rather, the individual may be more interested in other social network sites such as MySpace and Twitter. Therefore a limitation of this study is that it only focuses on Facebook and not other social media.

Another limitation of the study is that technological anxiety can have an influence on Internet involvement, and therefore personality may not be the only factor that can influence Facebook involvement (Ross., 2009:579). Using social network sites may be foreign and unknown to individuals and therefore they may focus more on *how* to communicate, and less on *what* to communicate.

It has been argued that Facebook users portray themselves in a more positive light to the online community and therefore individuals may aspire to an ideal-self through his/her Facebook profile (Dunne, Lawlor & Rowley, 2010:46). Using Facebook profiles, individuals can disguise their true identities and demonstrate a more enhanced impression of themselves.

If this is the case, then this study will not be a true measurement of comparing the big five personality traits on an individual's involvement with Facebook.

## **CONCLUSION AND RECOMMENDATIONS**

The results of this study indicated that there are few significant relationships between personality and Facebook involvement. Future research should investigate the specific cues that extract impressions of personality and the cues that are actually valid indicators of what someone is like (Gosling, Gaddis & Vaxzzir, 2007:4). Furthermore, future studies can investigate if individuals present an idealised virtual identity and promote an enhanced impression of themselves (Nauert: 2009).

Future studies should incorporate the involvement of more social network sites, such as Twitter, LinkedIn and MySpace, in relation with the five different personality types in order to fully understand how different personality types relates to online social networks. Other personality factors, such as jealousy and self-esteem can be measured against the involvement with different social network sites.

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# **THE ROLE OF SKILLS IMMIGRATION IN ADDRESSING SKILLS SHORTAGES IN SOUTH AFRICA**

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**Key terms:** Emigration; immigration, causes of immigration; push and pull factors; migration; globalisation



# **THE ROLE OF SKILLS IMMIGRATION IN ADDRESSING SKILLS SHORTAGES IN SOUTH AFRICA**

## **ABSTRACT**

South Africa is in the throes of a skills crisis. This situation is seriously hampering the country's economic progress and global participation. This study focuses on the analysis of skills migration in South Africa, and specifically aims to provide a conceptual framework for better cognition of the skills situation in South Africa. The research has the following objectives to:

- Determine the factors that are contributing to skills shortages in the country;
- Identify push or pull factors of immigration; and to
- Construct a conceptual framework for skills immigration.

The main findings were that the push factors include affirmative action, which contributes to emigration of skilled individuals, crime, HIV, economic instability, poor health care and dissatisfaction with the political situation of the country. Pull or positive factors on the other hand draw skilled South Africans to a country. These factors include: attractive salary packages, early retirement within the education sector, an opportunity to gain international work experience, an improved lifestyle and variety of career choices.

Finally, South Africa tends to attract a higher proportion of unskilled and semi-skilled foreign workers when, in actual fact, it should be attracting highly skilled immigrants. This is contrary to country needs as South Africa needs to attract the skilled workers into the economy.

## INTRODUCTION

The migration of skilled labour across national boundaries and continents is a growing trend fuelled primarily by globalisation and technological advancements. This development is creating huge global labour market imbalances with developing countries experiencing growing levels of skills shortages and an ever-increasing threat of skills flight (Maharaj, 2004:2). These countries are losing skills to developed countries in North America, Western Europe and Australasia who possess robust skills immigration regimes (Bisseker & Paton, 2005:19; Crush *et al.*, 2000:10 & Rodrik, 2006:4).

Developing nations are responding to this flight of skilled labour in various ways. Some measures include expansion of national education and training systems, increased investments in vocational education and training, reviewing industrial policy to increase growth and reduce unemployment, tax incentives and attractive immigration policies to lure skilled labour to a country (Kraak, 2008:7; CDE, 2007a:11; JIPSA, 2006:1 & DOE, 2005:15).

Historically, the benefits of skilled immigration have been greatly valued by developed countries. They regularly recruit engineers, doctors, teachers and nurses to their countries. For instance, Singapore, USA, Germany and Ireland have turned to India to recruit information technology engineers, while the United Kingdom has programmes to attract nurses (Bernstein, 2000:4). These countries see migration as one means of alleviating labour market shortages (OECD, 2003:103).

South Africa is also a victim of skills emigration. Common South African destinations for the flight of skilled labour include the United Kingdom, United States, Canada, Australia, New Zealand and the United Arab Emirates. This “brain drain” is proving to be a major impediment to economic growth, social stability and job creation. Although the country’s skills shortages are largely the product of a poor education and training system, skills emigration is exacerbating the problem (Rodrik, 2006:3-5; Bernstein, 2000:4; & Crush *et al.*, 2000:2).

One of the government’s policy initiatives for growth, the Accelerated and Shared Growth Initiative for South Africa (ASGISA, 2006:1-7), identifies skills shortages as a binding constraint for economic growth. Concern over this issue and the failure of the national

education and training system to supply the economy with much needed skills is leading to a debate about creating a pro-skills immigration policy regime to support economic growth and job creation.

A number of terms and concepts are used in the entire study. For the purpose of clarity, these terms are explained below.

## **PROBLEM STATEMENT**

The issue of skills shortages presently is receiving considerable attention in South Africa. There appears to be a general consensus that the South African labour market is characterised by a skills mismatch with large numbers of unemployable people, including graduates, and concomitant large numbers of job vacancies (Kraak, 2008:1; Bisseker & Paton, 2005:18-20; Rodrik, 2006:3 and Hausmann, 2007:66).

The labour market, in line with international trends, is witnessing a significant decline in the relative demand for low skilled labour, particularly in mining, agriculture and manufacturing which constitute the least skills intensive parts of the economy (Rodrik, 2006:4). For example, in 2004 mining employment was 29% lower than in 1994 and 43% below its historical peak in 1986, a loss of 177 261 and 323 603 jobs respectively. Agriculture lost 112 352 jobs between 1994 and 2004, a fall of 12.1%. During the decade between 1994 and 2004, manufacturing jobs fell by 11.7% or 165 448 jobs and by 21.0 percent or 332 441 jobs since its 1982 peak (Hausmann, 2007:75).

In contrast, the labour shortages are prevalent at the intermediate and upper-end of the skills spectrum, particularly in the financial and services sectors which have recorded steady growth in recent years. This pattern is aggravating the impact of the skills constraint on the economy (JIPSA, 2006:4). In addition, skills migration is also contributing to skills shortages in South Africa. The country is losing artisans, technicians, doctors, nurses, teachers and accountants in increasing numbers. A recent study found that 40% of skilled South Africans are considering emigrating across all race groups. In 2000 the comparative number was a mere 18% (Bisseker & Paton, 2005:18-20). Therefore South Africa, like other countries, is concerned about skills emigration.

To add to the problem of skills migration articles printed in the popular media creates simplified views on the skills migration situation. For example, to blame crime levels in South Africa as the core culprit for emigration. Although a lot of research has been performed on the reasons for skills emigration, as well as immigration, very few studies have progressed further into a conceptual framework to understand skills migration holistically.

## **OBJECTIVES**

The primary objective of this study was to analyse South African skills immigration.

This objective is achieved by the following secondary objectives:

- Determine the factors that are contributing to skills shortages in the country;
- Identify push or pull factors of immigration; and to
- Construct a conceptual framework for skills immigration.

## **SOUTH AFRICA'S IMMIGRATION POLICY**

The period between 1991 and 2005 saw changes in the Immigration policy of South Africa. There was restructuring and reshaping of migration issues from the *Aliens Control Act No. 95 of 1991* through to the *Immigration Amendment Act No. 19 of 2004* and the *Immigration Regulations* of June 2005. Initially, the *Immigration Amendment Act of 1991* did not place much emphasis on skills immigration as it focused on the importance of stimulating employment for South Africans.

However, by 2002, the government realized that there is a need in the economy for skilled foreign workers in sectors such as information technology, finance and engineering. It became evident, that there is not a shortage of job-seekers but there is a major shortage of skilled workers (CDE, 2002:37). Therefore, this need became part of government's economic strategy, *Joint Initiative for Priority Skills Acquisition (JIPSA, 2006)*. Added to this, there appeared to be an acceptance by government that immigration of skilled foreign workers will partly help to overcome this skills shortage and subsequently integrate South Africa into the global economy. Thus, the role of skilled foreigner workers was seen as having a dual nature:

- One, to enhance the economy; and
- Secondly, to transfer skills and experience to the local workforce.

Having acknowledged the role of skilled foreign workers, the government still presented an immigration policy that was largely problematic for prospective skilled workers and organisations and businesses that sought to recruit skilled foreign workers. The discussion to follow will provide a critical analysis of South Africa's current immigration policy.

### **A critical analysis of South Africa's current immigration policy**

South Africa's *Immigration Act No. 13 of 2002*, was a subject of widespread criticism due to its lack of consultation during its drafting. Therefore, in developing and passing of the *Immigration Amendment Act No. 19 of 2004* and the *Immigration Regulations* of June 2005, there was consultation with government and non-government bodies which included the public and the Immigration Advisory Board (Willand, 2005:3). Although this brought about certain clarifications and positive changes to the immigration laws, this does not mean that South Africa now has a successful immigration policy (CDE, 2005:3). However, on a positive note, Willand (2007:7) states that certain issues relating to requirements for work permits were abolished and financial requirements for retirees was structured more logically. There are, however, still certain elements in the law, that make applications by skilled foreigners and organisations and businesses still very difficult. For example, the requirements for business permits have actually become more difficult than before 2003.

The discussion to follow will focus on problems confronting organisations and businesses with regard to recruiting skilled foreign workers as well as problems encountered by skilled foreigners with regard to their applications for working in the country.

- **Quota work permits**

The *Immigration Act No. 19 of 2004* stipulates the use of quota work permits. The use of this system for allowing immigrants into the country is problematic for various reasons. Skills needs are continuously changing due to the presence of newer technologies. Thus, accurate quota predications for certain skills would be doubtful. It is also difficult to work out quotas for certain skills where work experience is a part of the skills. Furthermore, locating South Africans who are capable of doing the jobs before sourcing a certain quota of immigrants, would be too time consuming (CDE, 2005:2). Related to the issue of calculating quotas, is the lack of correlation between the Department of Labour's (DOL) scarce skills list and the Department of

Home Affairs' (DHA) scarce skill list. Thus, this makes importing of skills even more difficult (Development Policy Research Unit, 2007:24).

- **Application backlogs**

The DHA makes entry of skilled foreign workers very difficult. According to immigration lawyers, DHA is said to have a backlog of residence permits as well as approximately 35 200 quota work permit applications which were made available in 2007 to attract skilled foreign workers to help alleviate skills shortages in South Africa. According to Ellis (2008:79), this backlog is largely attributed to lack of capacity in the department. To date, only 1 010 work permits have been issued in areas of scarce and critical skills. Thus, Borat *et al.* (2002), CDE (2008:17) and Ellis (2008:80) regard South Africa's restrictive skills immigration policy and regulations as problematic. Hence, this makes development of a suitable labour recruitment policy look far-fetched.

- **Evaluation of qualifications**

According to Pokray (2006:2), all skilled foreign workers must have their qualifications evaluated by the South African Qualifications Authority (SAQA) irrespective of its relevance to the post being applied for. Due to the influx of applications for evaluation, which is now a statutory requirement, SAQA has been unable to keep up with the applications. Further, SAQA is taking approximately two months to process "priority" applications. This is resulting in immense time delays, expense and frustration for skilled workers as an application based on qualifications cannot be lodged unless it has been evaluated by SAQA (Pokray, 2006:2). This application process becomes more problematic if the skilled foreigner is still residing in his or her country.

- **Business Permits**

The following entry requirements in respect of business permits are too high:

The amount of capital investment required is very high; a comprehensive business plan is also required and five South Africans must be employed in new businesses.

This is not practical as small businesses may start off with just one or two employees and later become larger (Willand, 2005:18 & CDE, 2005:12). The mentioned requirements will actually discourage prospective investors.

- **Police clearance**

Police clearance is another major obstacle for a skilled foreign applicant. According to CDE (2005:12), he or she has to get police clearance from every country that he or she has resided in for more than a year since turning eighteen. The clearance has to accompany the application. This can be very time consuming for the prospective applicant and result in extended delays.

- **Intra company transfer work permits**

In terms of Section 19(5) of the *Immigration Amendment Act No.19 of 2004*, the time frame for an intra company transfer work permit was restricted to a period “not exceeding two years”. This is problematic for organisations and businesses as it implies that transfer work permits cannot be extended. Hence, careful planning is essential for staff deployment or secondment to their South African offices (Pokray, 2006:1).

- **Permanent residence permits/applications**

There is a backlog at DHA in respect of applications for permanent residence. There is an excess of 17 000 applications and this figure excludes new applications coming in. A lack of capacity in the DHA has led to this situation. It can extend to one or two years for the finalisation of applications for permanent residence (Pokray, 2006:2). This can be extremely frustrating and discouraging for prospective applicants (CDE, 2005:15).

- **Documentation**

Recruitment and large business organisations experience high levels of frustration in their attempts to obtain legal documentation.

Having reviewed rules and regulations stipulated for the recruitment process, the discussion to follow will indicate the impact of these regulations of the immigration policy in addressing the skills shortages of the country.

## **PUSH FACTORS (FACTORS THAT PUSH SKILLED WORKERS OUT OF THE COUNTRY)**

The discussion below focuses on some of the major factors that push skilled workers out of the country.

### **Crime and violence**

The high crime rate is pushing many skilled workers out of the country. A common reason for their leaving is that they are looking for countries that are safe for their children and family. Hence, crime is costing South Africa much in the form of loss of lives, revenue and skills. It also affects the functioning of certain sectors and results in a decrease in the brain pool, not to forget the psychological impact of crime. Hence, Du Preez (2002:82) and Du Toit and Van Tonder (2009:23), confirm the view of other research that crime is a major push factor that results in emigration of skilled workers. They also state that severe crime such as assault, murder and rape is very high. An average of 25 000 people are murdered each year in the country (South African Emigration, 2003). Maritz (2002:3) indicates that the financial costs incurred through crime are extensive. It costs approximately R250 000 to replace a skilled worker in South Africa.

### **Affirmative action**

Affirmative action and employment equity have pushed many skilled workers out of the country. These policies are a major source of concern held by whites (Mattes & Richmond, 2000; Rogerson & Rogerson, 2000). Individuals affected by affirmative action are of the view that their talents or skills are not appreciated by government or certain organisations. Hence, many white South Africans have left their country to seek greener pastures (Ramphela, 2008:19). Results of a survey undertaken by the Southern Africa Migration Project indicate that approximately 83% of whites and 20% blacks are opposed to the government's affirmative action policy (McDonald & Crush, 2002:40).

### **Promotion opportunities**

In relation to the above policies, many skilled workers belonging to the minority race groups have been by-passed when company promotions were available. This is unacceptable to many such individuals. As a result these skilled workers become part of the emigration statistics.



### **Declining education standards**

The standard of education is deteriorating. In this recent shift from Outcomes-based education (OBE) to what is now referred to as education for 2025, the standards have been largely compromised. Our public education system is characterised by low education standards, inadequate provision for early childhood development, declining matric pass rates, decline in enrolments at FET colleges, lack of resources, decline in national education budget, under-qualified teachers, weak management, poor teacher morale, and high failure rates in schools, colleges and universities (SACSI, 2009). This situation is driving skilled people out of the country as evidenced in a study conducted by Bezuidenhout *et al.* (2009:214). It was noted that 50% of South African doctors that emigrated, indicated that better schooling opportunities for their children influenced their decision to leave the country. They are of the view that developed countries have higher education standards and increased career opportunities for their children. Further, emigration for these skilled professionals is advantageous as they will have good employment opportunities in their new country.

### **Economic instability**

Many skilled workers are leaving the country due to the state of the economy (Bornman, 2005:388). Savings are eroded due to the high inflation rates and continuous fluctuation in the currency creates a considerable degree of uncertainty in the future of the country. According to Rogerson and Rogerson (2000:49), 74% of people who emigrated were unhappy with the level of taxation, and 71% were unhappy with living costs.

## **PULL FACTORS (FACTORS THAT ATTRACT SKILLED WORKERS INTO A COUNTRY)**

There are many factors that pull skilled workers to a country. The discussion focusses on the more common factors.

### **Globalisation**

Due to globalisation, the mobility of skilled individuals has increased. Taking into consideration the push factors already mentioned, globalisation serves as an attractive force due to the fact that international standards are applicable in certain professions. As a result of the common curricular for medical practitioners, automatic registration within the British Commonwealth countries is possible (Iredale, 2001:10). Further, incentives offered by

developed countries such as Australia, New Zealand, USA, Great Britain and Canada, attract highly skilled South Africans with high levels of education and advanced occupational skills (Van Rooyen, 2000:62-68).

### **Salary opportunities**

Many skilled workers are attracted by lucrative salary packages (Dzvimbo, 2003:6). These high salaries are generally offered by developed countries such as Australia, Canada, USA and Europe (Rogerson & Rogerson, 2000:48). These countries recognise the value of high skilled workers.

### **Family ties**

Many skilled workers are also attracted to countries where there is some family link. Countries such as Canada, Australia and the United Kingdom have a large South African community. A friend or relative may have emigrated a while ago and this has now created an opening for the skilled worker not only in terms of family relationship but also creating work opportunities (Kuznetzov & Sabel, 2006:7). It also reduces the problems of moving and adjusting to the new country (Bhorat, *et al.*, 2002:2)

### **Quality of life**

As mentioned in the earlier section crime is driving a large number of skilled workers out of the country. These individuals are attracted to countries that offer a safe and better quality of life not only for themselves but for their entire family especially their children. They see a better future for their children in terms of increased safety and security, better education opportunities and thereafter good work opportunities (Bezuidenhout *et al.*, 2009:214). These factors lead to a good quality of life.

### **Promotion opportunities**

Many skilled workers are attracted to certain countries due to greater job mobility and promotion opportunities. They see such opportunities passing them in this country due to certain government policies such as affirmative action (McDonald & Crush, 2002:40).

### **Recruitment agencies**

Certain countries have very active recruitment agencies within countries where there are high quality skilled workers such as in South Africa (Bhorat, *et al.*, 2002:2). These agents actively

recruit skilled workers thus contributing to the brain drain in the country (Dzvimbo, 2003:6; Bhorat, *et al.*, 2002).

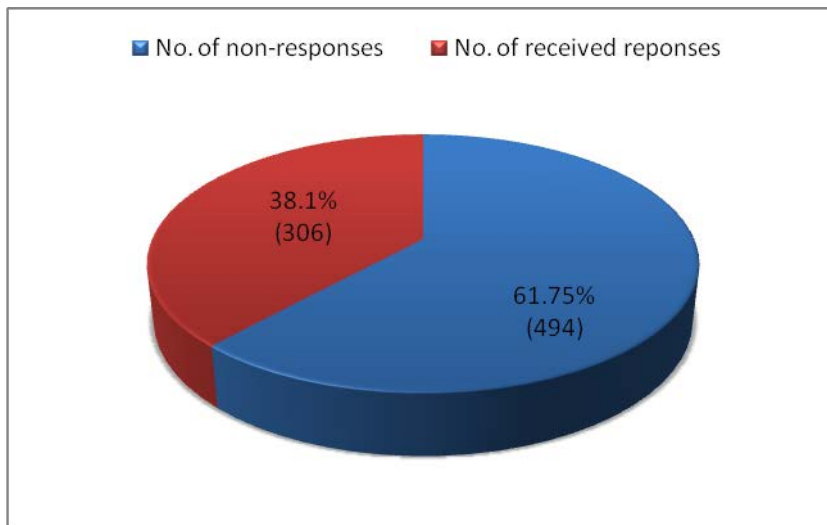
## **RESEARCH METHODOLOGY**

The research methods used in all the articles includes an extensive literature study on the specific topics related to the paper, and an empirical study (survey research). Quantitative statistical analysis was employed to analyse the data.

A closed questionnaire was drafted from the concepts, classifications and different measuring items that were discussed in the literature review. The questionnaire was used to determine the effectiveness of South Africa's immigration policy with respect to skills immigration. It was e-mailed or posted to various organisations. In this form of data gathering, participants are more willing to be honest as their anonymity is assured (Salkind, 2007:138). The questionnaire posed immigration issues on a five-point Likert scale.

It was decided to use a sample of 800 organisations/businesses that seek to employ skilled foreign labour in South Africa. This sample was determined after contacting several organisations/businesses either electronically or by telephone to determine whether they employ skilled foreign labour. Three weeks after the initial mailing of the questionnaires, a follow-up letter was dispatched to the various organisations which had not responded. A week later a telephonic follow-up was done. By the due date when the researcher proposed finalising the computation of the information, a total of 306 questionnaires had been received from an initial 800 questionnaires that were mailed. This represented a satisfactory response rate of 38.1%.

**Figure 1: Questionnaire Responses**



Quantitative analysis was used to analyse the data. The data was subjected to reliability analysis (a minimum Cronbach Alpha of 0.70 required) and exploratory factor analysis (where minimum factor loadings of 0.40 were used) (Field, 2007:666; Du Plessis, 2010). The factor analysis (Varimax rotation) was preceded by the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy as well as the Bartlett test of sphericity to determine the appropriateness of principle components analysis for the collected data (Field, 2007:640).

## RESULTS

The results are shown in relation to the objectives of the research.

### **Objective 1: The factors that are contributing to skills shortages in the country**

Four areas were identified that contributes to skills shortages in South Africa. These areas, their sub-factors and the variance explained by each factor are shown in the table. In addition, the values of the Bartlett's test of sphericity, the KMO measure of sampling adequacy and the Cronbach Alpha reliability coefficients are also shown in table 1. These factors and their relative importance are:

- Immigration policy issues (0.764);
- South Africa's immigration procedures (0.726);
- Department of home affairs (DHA) (0.674); and
- In-company immigration (0.656).

All the factors have satisfactory reliability with only one coefficient being unsatisfactory. This factor *Recruitment of foreigners* returned an alpha value of 0.332 which is well below the 0.70. Both the KMO and Bartlett's tests were favourable in all the factors.

**Objective 2: Identify push or pull factors of immigration; and to**

The results regarding the push and pull factors appear in Table 2. The table shows the same statistical information as table 1 does. There are five push factors (in descending order of importance: Employment issues, National policies, Standards of living, Quality of life, Work opportunities) that explain a cumulative variance of 70.26% while three pull factors (also in descending order of importance: Quality of working life, working opportunities and quality of family life) could be identified (explaining 72.88% of variance cumulatively). It is noteworthy that employment opportunities and quality thereof amounts to approximately 60% of the variance explained, showing that work is an important issue drawing skilled labour into South Africa. The reliability is regarded to be satisfactory in all the factors. Both the KMO and Bartlett's tests were favourable in all the factors.

**Objective 3: Construct a conceptual framework for skills immigration.**

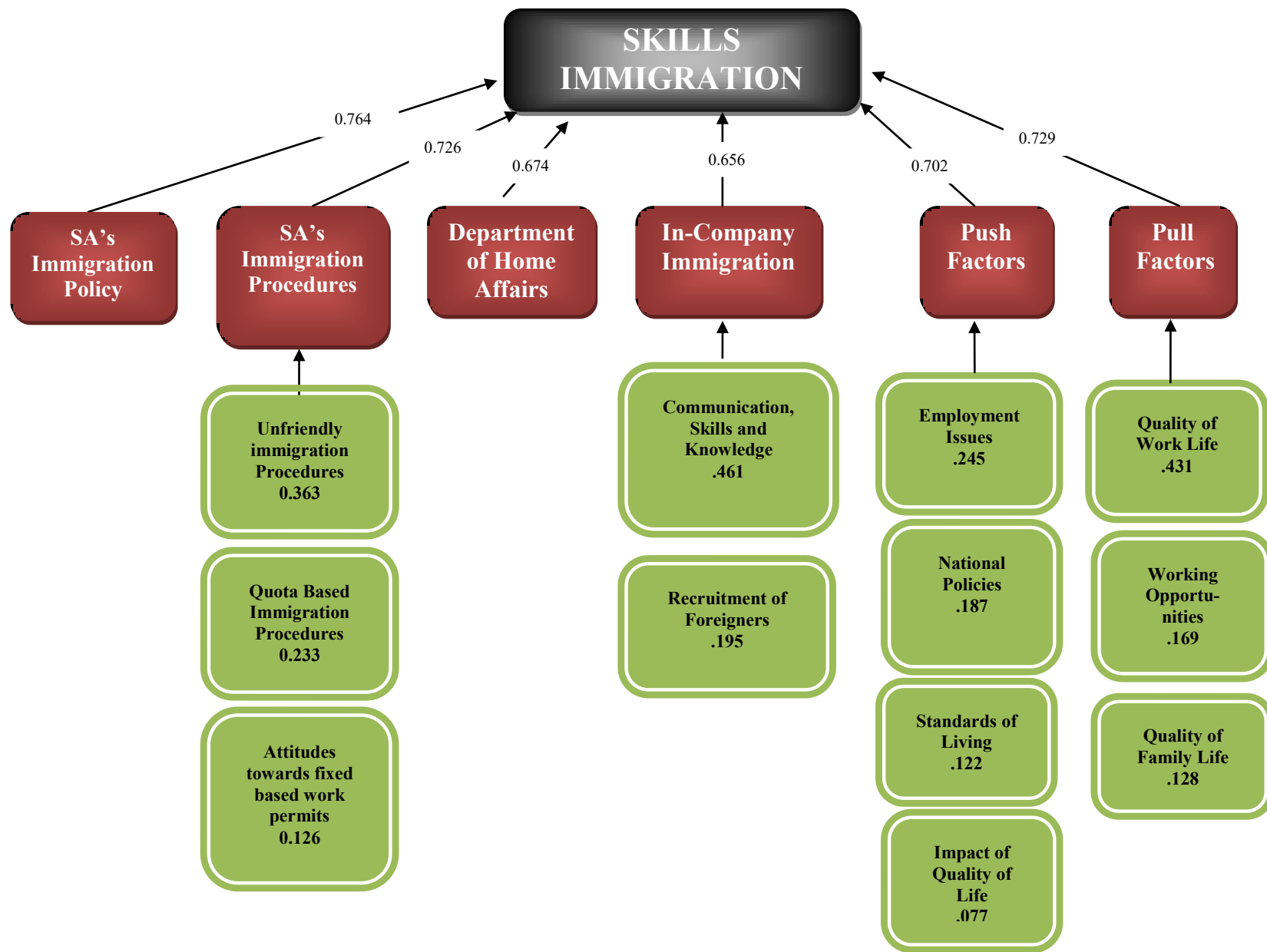
Figure 2 provides a comprehensive view of factors that contribute to the skills immigration debate. These factors were explored in tables 2 and 3 after the specific sections have been identified by the literature study and applied in the empirical research. (Figure 2 is inserted after tables 1 and 2).

**TABLE 1: AREAS OF SKILLS SHORTAGE**

AREA OF SHORTAGE	SUB-FACTORS	% VAR	CRONBACH	KMO	BARTLETT
Immigration policy issues	<i>Factor 1: Immigration Policy Issues</i>	76.38%	0.919	0.889	0.000
South Africa's immigration procedures	<i>Factor 1: Unfriendly immigration procedure</i>	36.62%	0.877	0.699	0.000
	<i>Factor 2: Quota based immigration procedures</i>	23.38%	0.728		
	<i>Factor 3: Attitudes towards fixed quota based work permits</i>	12.61%	0.811		
Department of home affairs (DHA)	<i>Factor 1: DHA</i>	67.13%	0.946	0.896	0.000
In-company immigration	<i>Factor 1: Communication, skills and knowledge</i>	46.10%	0.853	0.716	0.000
	<i>Factor 2: Recruitment of foreigners</i>	19.50%	0.332		

**TABLE 2: PUSH AND PULL FACTORS IN SKILLS IMMIGRATION**

FACTOR	SUB-FACTORS	% VAR	CRONBACH	KMO	BARTLETT
Push	<i>Factor 1: Employment issues</i>	24.55%	0.736	0.698	0.000
	<i>Factor 2: National Policies</i>	18.72%	0.767		
	<i>Factor 3: Standards of living</i>	12.22%	0.793		
	<i>Factor 4: Impact on quality of life</i>	7.68%	0.670		
	<i>Factor 5: Work opportunities</i>	7.09%	0.647		
Pull	<i>Factor 1: Quality of working life</i>	43.12%	0.817	0.706	0.000
	<i>Factor 2: Working opportunities</i>	16.95%	0.750		
	<i>Factor 3: Quality of family life</i>	12.81%	0.704		



**FIGURE 1: CONCEPTUAL FRAMEWORK OF SKILLS MIGRATION IN SOUTH AFRICA**

## **THE IMPACT OF THE IMMIGRATION ON ADDRESSING SKILLS SHORTAGES**

Due to the Fifa 2010 World Cup, major infrastructural growth and development has started in the country from 2007 to 2010. According to McKechnie (2008), this is placing a tremendous strain on the construction industry as a result of shortage of engineers, quantity surveyors, technicians and architects. While the USA has 380 engineers per million people, China 225 and India 95, South Africa has only 45 engineers per million people (ECSA, 2007:6; McKechnie, 2008). The Engineering Council of South Africa (ECSA) views the engineering shortage as critical. According to ECSA, approximately 300 engineers emigrate every year. This is highly problematic as the country needs between 4 000 to 5 000 engineers urgently (ECSA, 2007:7). A short-term solution was to employ skilled foreigners as our present tertiary institutions are unable to replenish these shortages in the immediate as well as short to medium term (Department of Education, 2005:15).

Growing labour shortages has also become a significant threat to the mining industry. Problems in retaining skilled mining staff combined with insufficient new graduates and an aging workforce is affecting the South African industry. As evident in the construction industry, apprenticeship in the mining industry has also been neglected in the recent past. Apprenticeship programmes that were offered by both Eskom and Iscor had played a role in supplying skills (Macartney, 2008).

In addition, companies like Eskom are not only experiencing power generation problems but a dearth of engineering skills has also contributed to the power crisis. The inadequacies in the present education system together with the poor results in mathematics and science are definitely not going to increase the intake of engineering students. Furthermore, the apprenticeship system is on its way out with the levels of artisan training having dropped from around 30 000 registered artisan apprentices in 1975 to an estimated 3 000 in 2006 – a ten-fold drop. In addition to this situation, the Sector, Education and Training Authority (SETAS) were also not making a sufficient contribution to addressing the skills shortages (McKechnie, 2008).

Further, skills shortages is impacting on the economic growth of the country and thus limiting its global participation level. According to the Global Competitiveness Report (2008/2009), South



Africa's world competitiveness ranking is 45 out of 134 countries. Smaller countries such as Bahrain and Lithuania are more competitive than South Africa. Consequently, South Africa is unable to secure direct foreign investment, a vehicle necessary to drive the country forward economically.

There are a range of possible responses to alleviate the above shortages. Reviewing labour market policy, improving education and training and developing a more robust skills immigration regime are just a few. Of these, the immigration issue, which is a quicker solution, should be addressed by government, members of business organisations and labour for the progress of the country. The need for skilled immigration was also fully supported by President Mbeki in his State of the Nation speech in 2001. The Harvard Group (2008) and Boswell *et al.* (2004:3) also recommended immigration of highly skilled people to ease skills shortages. The discussion to follow will provide insight into the results of the empirical study.

## **SUMMARY**

The foremost goal of this study was to determine the major causes of skills shortages. The conclusion drawn from this study is that South Africa is confronted by skills shortages due to economic, political and social challenges. These challenges include, amongst others, poor education standards, affirmative action, crime, and the political situation, and inadequate government health-care, structural changes in the economy, poor service delivery, HIV and emigration. This study has confirmed the findings of a number of studies of South Africa conducted in recent years which have commonly identified the chronic shortage of skills as a major binding constraint to economic growth, job creation and poverty alleviation. As evidenced in the empirical study, the central problem appears to be a restrictive immigration policy that imposes penalties and impediments on employers who source skilled foreigners. This policy is detrimental to South Africa's competitiveness in the global economy and deters investors from utilising skills not available in the domestic labour market.

The following factors are consequences of this restrictive policy: due to major infrastructural growth and development during the 2010 period, there is tremendous strain on the construction industry as a result of shortage of engineers, quantity surveyors, technicians and architects.

Problems in retaining skilled mining staff combined with insufficient new graduates and an aging workforce is affecting the South African industry. For example: a dearth of engineering skills at Eskom has also contributed to the power crisis.

The second objective of this research was to determine the factors that push or pull skilled labour into or out of South Africa and what are the consequences of this movement. It was evident in this study that the push and pull factors contribute largely to skills shortages in the country. Some of the factors include: affirmative action, employment equity, crime, quality of lifestyle, family ties, safe environment, better quality education and fair taxation levels. Many skilled individuals affected by affirmative action are of the view that their talents or skills are not appreciated by government or certain organisations. Subsequently, emigration is a major option taken by such individuals.

Another factor pulling skilled South Africans is the prospects offered by developed countries. Highly skilled South Africans with high levels of education and advanced occupational skills are recruited by firms in developed countries such as Australia, New Zealand, USA, Great Britain and Canada. Many, if not all skilled individuals take the opportunity offered as it comes with far better prospects and gives them the opportunity to work in the global arena. While skilled South Africans are being recruited by developed countries, attempts to recruit foreign skills to work in local firms are proving to be a challenge.

South African policy-makers can take important lessons from such countries as their immigration policy initiatives have been tried and tested. It would be beneficial to examine these initiatives that immigrant destination-receiving countries undertake in order to develop a competitive skills immigration policy considering our country is seriously challenged in this policy area.

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**THE SEVEN STEP PROCESS OF CONDUCTING FOCUS GROUP  
RESEARCH: THE IDEAL FRAMEWORK FOR SOUTH AFRICA AND  
BEYOND**

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**KEY WORDS:** FOCUS GROUPS; FRAMEWORK; QUALITY



# **THE SEVEN STEP PROCESS OF CONDUCTING FOCUS GROUP RESEARCH: THE IDEAL FRAMEWORK FOR SOUTH AFRICA AND BEYOND**

## **ABSTRACT**

Different versions of the process of conducting focus group research were identified as a source of confusion in the field of marketing research in South Africa, with implications for the misuse of the process and thus rendering research quality control difficult. A seven step framework was conceived, based on the literature reviewed, and opinions of industry stakeholders on its scientific viability and relevance were sought through a qualitative study. A non-probability judgement sample was drawn, and in-depth interviews were conducted on eighteen respondents at their workplaces in Gauteng province. Based on findings of the study, the seven step framework was confirmed as a scientifically relevant intervention within the South African industry context, and necessary for purposes of improving quality control in focus group research studies in South Africa.

**Keywords:** focus groups; framework; quality

## **INTRODUCTION**

Different versions of the process of conducting focus group research may be a source of confusion in the field of marketing research in South Africa, with implications for quality. Whereas McDaniel and Gates (2006:84) stipulate four steps involved in conducting a focus group study, Malhotra (2007:148) cites an eight step process, while Zikmund and Babin (2010:103-107) provide no specific steps but emphasise core issues on focus group recruitment and moderation among other things. Similarly, Burns and Bush (2006:208) stipulate how focus groups work without citing a set of steps that ought to be followed. The varied descriptions of the focus group process and the lack of industry stipulated approach to focus group research provide local researchers with open options with respect to the correct research process to be followed. The implications for research quality can be dire. Maree and Wagner (2007:122) and Martin (2006:2-4) confirm that focus group research quality is often compromised due to the misuse of the focus group process in South Africa. Apart from that, the qualitative study revealed that lack of a streamlined focus group research process rendered quality control difficult to enforce in South Africa. Given this background, a logical seven step process for conducting focus group research was conceived, informed from the literature reviewed. A qualitative study was then conducted to provide empirical validation to the seven steps as a scientific process.

In this regard, the study sought to determine the opinions of major industry stakeholders on the importance, appropriateness and scientific relevance of the seven step process as a framework for guiding focus group research. The objective was to optimise research quality control in focus group research in South Africa. Based on the findings of the empirical study, the seven step approach to conducting focus group research was confirmed not only as a solution to the confusion around different versions of process, but also as scientifically relevant in the South African industry context. More importantly, the seven step framework was proved to be necessary for purposes of improving quality control in the execution of focus group research studies in South Africa. Based on the findings of this study, quick adoption and vigorous enforcement of the seven step framework by industry authorities is recommended, and penalties must be imposed on quality research transgressions by research suppliers in order to improve quality standards within the local practice of focus group research. However, a more conclusive,

follow-on study on the seven step framework was suggested in order to test and consolidate findings of the qualitative study.

## **PROBLEM STATEMENT**

Evidence exists in the literature reviewed, which suggests that the process of conducting focus group research in South Africa may not be deemed systematic or well-streamlined, and various versions of steps are stipulated by different researchers. The different versions of the focus group process may be a source of confusion for researchers in marketing research in South Africa. The confusion around which process is the appropriate one may have implications for the quality of the research supplied to marketing decision makers at organisations across industries. Also, the different processes or versions for conducting focus group research render the use of focus groups open to abuse, as confirmed in the literature studied. In both instances, that is, on confusion around the correct version of the focus group process and the misuse of the method, research quality control may be the major trade-off in the execution of focus group research studies in South Africa.

## **PURPOSE OF THE STUDY**

The purpose of the study was to develop a framework of seven steps to guide the process of conducting focus group research in South Africa, given the various and sometimes non-well defined steps stipulated by some researchers in the literature reviewed. The objective was to determine research supplier and user opinions on the importance and scientific relevance of the proposed seven step process, as a framework for conducting focus group research. A more streamlined approach to focus group research is critical for purposes of optimising research quality control, otherwise not possible due to different versions of steps currently being used.

## **SIGNIFICANCE OF THE STUDY**

Although a more conclusive, follow-on study will be conducted, this qualitative study contributes to the field of marketing research in that it provides a unique seven step framework, which entails

a set of guidelines to streamline the focus group research process. The development of the seven step process may serve to eliminate confusion around the appropriate and relevant version of the focus group process for South African practitioners. Also, as a more streamlined process, the seven step framework will aid implementation of quality control measures within the focus group process. Quality control is a major requisite in marketing research practice, especially in South Africa where evidence in the literature suggests the focus group research process is often abused in the pursuit for profit (Maree and Wagner, 2007:122; Green and Green 2005:1-9; Martin, 2006:2-4). The malpractices or misuse of the focus group method may be attributed to the versions of the focus group process followed, hence the need for a more streamlined approach. The chronological seven steps may enhance researcher focus and due diligence per step when conducting focus group research studies, and this way the standard of focus group research may be improved, for the benefit of stakeholders in South Africa and beyond.

## **RESEARCH PROPOSITIONS OF THE STUDY**

The main assumptions of this study are that non standardised approaches to focus group research are rife within the South African environmental context, and contribute to the misuse of the focus group research method. Malpractices in focus group research lead to research quality problems identified in the literature reviewed. In addition, ignorance of focus group research as a scientific process may be a widespread problem that requires a well defined framework of guidelines in order to streamline the focus group research process.

## **RESEARCH METHODOLOGY**

The study was qualitative in nature. Qualitative methodology helps discover deeper meanings and new insights from respondents (Zikmund and Babin, 2010:92). Accordingly, the methodology design for the study included the research population, sample frame, size and selection criteria, as well as data analysis procedures followed.

## **Research population and sample frame**

The population of interest for the study consisted of all South African organisations that supply or use marketing research information generated through the use of focus groups. A sample frame of over 250 research suppliers and 2000 active research user organisations, both registered and unregistered with SAMRA (Southern African Marketing Research Association) was used (SAMRA, 2010:77-99).

## **Sample size and selection criteria**

The study sample consisted of two categories, that is, one for the research suppliers (n=8) after a point of saturation was reached, and the other for research user organisations (n=10), for a total sample size of 18 individual respondents. The rationale for the use of research supplier and users was not only to achieve a balance in terms of representation of both research supplier and user organisations in the sample, but also to obtain perspectives from the two sides.

A non-probability judgement sample was drawn. Malhotra (2007:343) defines a judgemental sampling as a form of convenience sampling in which elements of the population are purposely selected based on the judgement of the researcher. In this regard, respondents from organisations currently active within the South African marketing research industry were considered. Only respondents from research supplier organisations that use focus groups, and research user organisations that have experienced or used research results derived from the use of focus groups were used. An informal screening procedure based on inquiries and checks on individuals' background was conducted to ensure quality within the recruitment process.

## **Data collection and research instrument**

In-depth interviews were conducted for data collection purposes. The in-depth research method was deemed suited for this study because it offers unhindered conversations in a social sense. The in-depth interview method generates data in unconstrained but vivid atmosphere (De Rosia and Christensen, 2009:15-35; Lillrank, 2003:691-703). The identity of respondents was treated as

confidential, because of the competitive rivalry within the South African marketing research industry. Respondents were manually coded using number codes for similar reasons.

A discussion guide was used as the data collection instrument, essentially to obtain pertinent opinions and views of representatives of both research supplier and user organisations. The discussion guide contained structured topics determined on the basis of issues arising from the literature reviewed. The discussion guide was deemed appropriate for purposes of the study because it allows for flexibility with respect to the use of in-depth interviews (n=18), where probing questions may be asked to get deeper and more elaborate explanations from the interview discussion (Zikmund and Babin, 2010:108). The discussion guide was pilot-tested on a total of 4 respondents, prior to the study being conducted, in order to refine the research topics.

### **Data processing and analysis**

A qualitative data processing and analysis approach was employed, and entailed data cleaning and preparation for quality purposes. This process involved general editing by checking the data for consistency, correctness and completeness (Malhotra, 2007:419; Nookabadi and Middle, 2001:657-670). The data was coded manually, using number codes and data that fell outside the coding procedure and any ambiguities identified were thus cleared to ensure reliability and accuracy of the data analysis process, as advocated by Segal, Hershberger and Osmonbekov (2009:70-82) and Famili (2005:417-418). A qualitative content analysis was conducted on transcripts produced, for the identification and categorisation of themes, trends, content and issues on quality challenges arising from the in-depth interviews (Ratcliff, 2008:116-133; Stavros and Westberg, 2009:307-320). As advocated by Keegan (2009:234-248) scientific rigour, reflection, analysis and interpretation of qualitative data was vigorously pursued for quality reasons.

## **LITERATURE REVIEW**

As evidence in the literature indicated, the process of conducting focus group research may not be deemed systematic or standard, or scientific for purposes of controlling focus group research quality output. To address this anomaly, which has implications for research quality in marketing research particularly in South Africa; a more streamlined approach to focus group research was conceived. However, the seven step framework ought to be viewed against a background of different non-standardised versions of the focus group process, propagated by different researchers within the field of marketing research including South Africa.

### **Versions of the focus group process**

There are different versions of the process involved in conducting focus group research, which may not be described as standard or systematic, because there is little evidence that supports a particular set of steps or guidelines in the literature reviewed. Different versions of steps followed in the focus group research process are stipulated by different researchers, perhaps based on the different nature of research studies, research questions or problems investigated. McDaniel and Gates (2006:84) stipulate four steps in conducting a focus group study that involve preparation for the group including recruitment of the participants, selecting a group moderator and creating a discussion guide, followed by conducting the group, and finally preparing the focus group report. Malhotra (2007:148) cites an eight step process that ranges from the setting of objectives through to writing a screening questionnaire, review of tapes and data analysis to summarisation of findings, followed by follow-up research or action. Zikmund and Babin (2010:103-107) provide no particular chronology with respect to the steps involved in focus group research, despite emphasising core issues such as focus group recruitment and moderation among other things. Similarly, Burns and Bush (2006:208) stipulate how focus groups work without citing a set of steps that ought to be followed. However, core issues such as the assembling of a group of participants, the need for a group facility and moderators to conduct the sessions are discussed, which should culminate in a focus group report. Considering this background of different versions of the focus group process, a systematic seven step process can be considered comprehensive and appropriate for purposes of enforcing quality control per step. The seven step

focus group process may comprise of key focus group research aspects identified in the literature reviewed such as planning, respondent sampling, recruitment, moderation, recording of focus group data and analysis of data as well as reporting of research findings as major steps, as depicted figure 1 below.

**Figure 1: The seven step focus group process**



Source: Developed for the study

In relation to Figure 1, the components of the seven step focus group process can be explained in terms of their importance, appropriateness and relevance as stipulated in the literature reviewed.

**Planning:** planning and preparation across the different steps of the focus group research process is key to the success of quality data generation through focus groups (Simon and Mosavel, 2008:63-81). Planning helps identify important issues to be addressed through focus groups (Courtois and Turtle, 2008:160-166). Planning for focus group research essentially incorporates the examination of the objectives of the marketing research project. Each stage of the focus group process must be planned and specific objectives of each stage established for a streamlined execution of focus groups (Zikmund and Babin, 2010:13).



**Sampling:** sampling for research participants is essential for all kinds of research, but the purpose of sampling procedures in focus groups is to bring together representatives of the communities the research is interested in. The research sample is created to ensure representativeness of a target population, in terms of participation (McDaniel and Gates, 2006:137; Simon and Mosavel, 2008:63-81). Focus group sampling entails a unique set of sampling procedures within the focus group process in order to create a desired research sample. The choice of the sampling approach or technique depends on the objectives of the focus group study (Welman et al., 2005:56, 67).

**Recruitment:** respondent recruitment is an important task that requires the skill of the recruiter as an effective communicator and in establishing rapport with the potential recruits. Recruitment involves a broad range of procedures such as planning and site selection (Kent, 2007:95). Different approaches are used by qualitative research firms with respect to respondent recruitment in marketing research. Where-as some use field managers or supervisors; others may employ direct researcher-to-recruiter contact. Curiosity might be a major motivator for attendance on the part of many aspirant respondents (Walden, 2006:76-93; Heiskanen, 2005:179-201).

**Moderation:** a focus group discussion is typically led by a moderator (Courtois and Turtle, 2008:160-166). A focus group moderator is a person hired by client or research firm to conduct the focus group, and must have a background in marketing or related field in order to execute focus group more efficiently (McDaniel and Gates, 2006:85). In some cases two moderators are used. The use of two moderators offers the advantage of allowing one moderator to concentrate on conducting and stimulating group interview discussions, whilst the other records manually or operates the audio recorder and helps ask follow up questions from time to time. Moderation of focus groups therefore is a key task, in particular given the increasing importance and preference for the use of focus groups in marketing research. Matching the moderator to the group profile in terms of age, gender or experience for example, may auger well for interaction and engendering rapport and thus discussions may be fruitful (Simon and Mosavel, 2008:63-81).

**Recording:** recording of data generated through focus group research is a critical step within the focus group research process, and most tools suited for qualitative data recording are used (Symonds and Gorard, 2010:121-136). A system of audio recording is normally used to record focus group interviews and may include tape and video recording. Tape recording entails making use of recording audio tapes. Tape recording is probably the best way although it tends to take a lot of time to transcribe the results. A good quality recorder is essential for tape recording focus group interviews, and must have a multidirectional microphone and easy to place on the table. Video recording on the other hand offers the advantage of capturing body language as well as the verbal exchanges, but may be seen as intrusive, thus permission from participants is definitely required (Emeraldinsight, 2010b:1-3).

**Data analysis:** the approach to data analysis for focus groups is largely determined and driven by the purpose and objectives of a research study (Simon and Mosavel, 2008:63-81). Analysis of research in general and focus group data in particular, must be conducted with scientific rigour, and transparency for logical and coherent research findings and conclusions arrived at by the researcher (Doyle, 2008:232-233; Walden, 2006:76-93). Accurate analysis of group interactions and dynamics is also critical as part of a rigorous process in research, in order to avoid incorrect interpretation and arriving at distorted or invalid conclusions (Vicsek, 2007:20-34). Features of group interactions must also be considered during data analysis, such as when respondents are particularly critical of one idea must be noted, analysed and interpreted within context (Aaker et al., 2007:200,201).

**Reporting of findings:** reporting of research findings is the last stage in the seven step focus group research process, and includes the interpretation of findings (Welman et al., 2005:237). Focus group research reporting is a useful skill as a specific account of reality must be related (Heiskanen, 2005:179-201; Roe, 2004:461-462). A typical marketing research report must be seen as the final product of all the research efforts expended on a project and might be the only research document that the client or other decision makers get to see (Burns and Bush, 2006:598). Accurate focus group research reporting and the credibility of findings thereof, are critical as they can be used to inform strategic and tactical decisions of business organisations (Heiskanen, 2005:179-201; Roe, 2004:461-462). For these reasons, the focus group report must communicate

research findings effectively, within the framework of study objectives and the methodology guiding the research (Simon and Mosavel, 2008:63-81).

### **Validating the need for a systematic focus group research process in South Africa**

To corroborate findings in the literature relating to the need for a systematic guide to the process of conducting focus group research in South Africa, a qualitative study was conducted. The in-depth qualitative study sought to determine and confirm the importance and scientific relevance of each of the chronological seven steps, as components of the framework for conducting focus groups, and whether or not it covered the full spectrum of focus group research activity.

## **FINDINGS OF THE STUDY**

Findings of the qualitative study were captured as outlined below, in terms of importance, appropriateness and scientific relevance of each of the seven steps of the conceived focus group process. As much as all the seven steps were described in the qualitative study as relevant, some were said to be more important than others. Other important considerations specific to certain steps of the focus group process emerged through the interviews conducted, including some of the major challenges per step. The direct quotations from interview participants were used in this part of the study, without direct attribution to the respondents involved, in order to protect the identity of the participants<sup>1</sup>.

**Step 1-Planning:** planning was described as a very important step in the focus group process by most research suppliers and users interviewed. When it comes to planning, “it is the smallest thing that can go wrong and ruin the experience for you, catering for example”. However, the degree of involvement of different stakeholders differed markedly. Whereas most of the research suppliers claimed to be meticulously involved at planning stage, very few research users said they were, while most tended to leave it to suppliers because of time and other constraints. Key planning considerations identified by most of the respondents included being meticulous on detail and every aspect of the research project; regarding planning as an ongoing process; planning

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<sup>1</sup> Direct quotations have been used for purposes of confirming the collective and general feelings or views expressed by respondents in the study. Thus, no direct attribution to respondents was made in order to protect the identity of the participants as agreed during the interviews.

must incorporate quality measures; checks, and constant back-checks and refinement of research procedures followed for quality reasons. However, challenges relating to focus group planning were cited as lack of knowledge of the target market, which sometimes forces some research suppliers to “shoot in the dark and say this is what we are thinking”. Apart from that, being able to balance a pre-budget within tight timelines of focus group projects is another challenge. Deceptive and inaccurate information supplied by some research users, deliberately or otherwise through incompetence on the part of some participants on focus group projects presented challenges.

**Step 2-Sampling:** sampling was described as a practical step, deemed critical as a step that follows immediately after planning and before actual respondent recruitment. It was apparent from both research users and suppliers interviewed that, guidelines on sampling as a step may be necessary for quality reasons. Most users adopt the hands-off approach to sampling, as they expect the supplier to take care of quality issues because of time constraints on their part. Also, the hands-off approach is taken because some research users feel that they “pay a lot of money for research”, therefore must not be expected to do more. Sometimes ignorance of what goes on in sampling is a challenge. Challenges faced in sampling practice were cited as the difficulty to determine target market especially if research users do not know much about their market, which is often the case. Lack of well defined or formalised procedures for sampling that could help counter cheating by respondents was also cited as a challenge. In addition, research capacity, expertise and other resources were mentioned as constraining factors in sampling.

**Step 3-Recruitment:** focus group recruitment was described as a specialized function that was often outsourced to agents, although some research suppliers tended to do it themselves despite capacity constraints. Some research users trusted the research supplier to perform efficient recruitment as per industry standards, because they lacked resources, including time and money to track and assess recruitment performance and quality. Some research suppliers and users alike acknowledged that certain recruitment quality compromises were inevitable, due to the often rushed recruitment function, owing to tight project timeframes. Other challenges cited were resistance to recruitment in focus group research which was acknowledged as a universal challenge by suppliers and users alike. In particular, resistance to recruitment was said to be high

when high LSM people were involved in the study. Quality control over the recruitment function was acknowledged as a challenge for both research suppliers and users alike, especially on issues of cheating and dishonesty by potential respondents.

**Step 4-Moderation:** most research users interviewed appeared to have no idea of what moderation entailed, let alone being a scientific process. They confused moderation with recruitment. Different versions of moderation were described. It emerged through the interviews conducted that most respondents were oblivious that moderation is a scientific process and must be applied as such. A few respondents believed moderation is a creative process somehow divorced from the practice of research science. Key considerations in moderation were cited as skills and experience of the moderator, critical for quality reasons. However, some research suppliers claimed, “for us, customers come to us because they know quality is there”. Challenges cited by most included incompetent moderators who led rather than guide the focus group discussions. The freelance nature of moderator operations meant they were in and out on a project, thereby contributing to lack of consistency and continuity of the project, which often compromised quality control. Maintaining consistency throughout the focus group research process was said to be a problem not only peculiar to moderation. In one organisation “they silo the different research cycles, so one person does the moderating, another person does the transcribing, another person does the analysis, a different one for interpretation, and the last person does the presentation, which is sometimes difficult because you get this dis-linkage between the data... then, you get problems with the quality of data”. Engagement of freelance moderators “yes, it’s a challenge for our industry because you’ve got such a lot of freelance moderators waffling around, and dribbling in and dribbling out” but contribute little on quality. Also, research client observers who set in during group discussions sometimes proved to be disruptive to the process or contributed little to the research study, especially when observers argued or objected to research findings out of ignorance of the scientific nature of the focus group process followed.

**Step 5-Recording:** Most respondents acknowledged recording of focus group discussions as an important step, as it entailed the capturing of the required data. Both suppliers and users attested to the fact that recording was the entire responsibility of suppliers, including quality control as

“they are paid for it”. It was also acknowledged that there were no particular quality measures or controls considered or enforced by most of the research users on data recording. Many tended to rely on their relationships with research suppliers which are fundamentally based on trust, and “we do get the value for our money”. Other quality concerns cited included inadequately backed-up recording, which often led to quality problems, apart from and being able to accurately capture feelings and expressions conveyed by the groups during discussions.

**Step 6-Data analysis:** Some respondents described data analysis as the most important step in focus group research, because it entailed the processing and interpretation of the data gathered which culminated in the reporting of findings. However, different versions of the data analysis approach emerged from those interviewed. In particular, that following scientific data analysis procedures did not mean following certain methods or techniques of data analysis, but merely entailed some electronic or manual checks on the data collected. Some respondents regarded the analysis stage as where creativity could be most valued, and did not have to adhere to scientific procedures. However, many respondents claimed that lack of scientific procedures on data analysis stage often led to clandestine data analysis operations. Apart from that, “sometimes clients want analysis two or three days after the group discussions are done” and quality is thus traded-off. Similarly, data analysis specialists were not always involved from planning, moderation or other stages, thus often lacked background and misinterpreted issues.

**Step 7-Reporting:** most of the respondents acknowledged the importance of accurate reporting of focus group findings, which they emphasised, must be tied to the objectives and nature or design of the study undertaken. Some claimed to produce reports that suit the style of the project rather than what the research client preferred, for quality reasons. Power-point reporting proved to be the most preferred format, although some appeared to use it simply because others used it. Challenges cited on reporting included the difficulty of acceding to appropriate levels of client receptiveness, because often, some “clients do not follow; don’t understand the design; can be overbearing or ask irrelevant questions” during the reporting sessions. Another challenge related to lack of interest in reading the word reports on focus group findings, often because they viewed as being too lengthy.

## **CONCLUSION AND RECOMMENDATIONS**

The seven step process can be confirmed as a systematic framework that is scientifically relevant and necessary for guiding the process of conducting focus group research in South Africa, based on the following reasons. Firstly, research activities involved in the conduct of focus groups described in the literature reviewed, and perspectives of respondents based on the qualitative study were adequately covered within the spectrum of the seven step framework. No evidence of activity overlaps beyond the seven steps was captured, and no underfeed of research activity information was apparent from the reports generated through the in-depth interviews that were conducted. Essentially, the seven step process covered the entire aspects of focus group research activity from planning to reporting of findings, as reported in the literature. Secondly, evidence on the need for the framework, and importance of each of the seven steps based on the literature reviewed was corroborated through the qualitative study. Finally, the confirmed importance and scientific relevance of each of the seven steps means that focus on each step of the process may enhance quality control and enforcement per step. In the light of the many impediments and transgressions relating to focus group research quality, compulsory registration and accreditation of all research suppliers ought to be enforced by industry authorities, and penalties imposed for noncompliance. However, it is recommended that a further study be conducted in order to provide conclusive results on the scientific viability and validity of the seven step framework, as an important guide for focus group research in marketing research practice in South Africa.

## **LIMITATIONS OF THE STUDY**

The study was limited in that it was exploratory and therefore only tentative findings could be established. The other shortcoming was the focus on research suppliers and users based in Gauteng province, which despite being the hub of focus group research activity, valuable insights from other provinces were missed.

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# A CONTROL-SYSTEM MODEL TO MANAGE SALES COVERAGE

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**Keywords:** Sales, sales management model, sales coverage, control system, sales personnel effectiveness

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<sup>1</sup> Kevin Strydom performed this research as part of his MBA studies at the Potchefstroom Business School of the North-West University.

# **A CONTROL-SYSTEM MODEL TO MANAGE SALES COVERAGE**

## **ABSTRACT**

This paper focuses on the perceptions of salespeople and the expectations of sales managers in the heavy equipment (such as earth-moving equipment) industry. The purpose of this investigation is to develop a control-system model that could assist in the effective management of sales coverage. Quantitative research is employed to evaluate the territory performance of the heavy equipment construction industry.

The efficient operation of a sales force is critical to the profitability of firms. Here, three factors play key roles, namely: the sales force's size, its territory allocation and its productivity levels. This gives rise to the question as to whether the performance of the sales force can be improved by: 1) hiring more salespeople, 2) allocating them more effectively to the various sales districts, and/or 3) improving salespersons' productivity through better calling patterns in terms of consumers and product line items. Ultimately, the important decision facing sales managers is how to coordinate the sales force to maximise results through improved performance by salespersons.

The total population of 40 sales personnel in South Africa selling heavy equipment was targeted, and 26 of them responded (signifying a response rate of 67.5%). In addition, one-on-one interviews were conducted with the four regional sales managers. The research identified four critical areas of importance to the control-system, namely sales territory, effective sales management, process improvements and quantitative indicators.

The outcome of this study resulted in a conceptual model that provides sales managers with a control system to help them to manage sales coverage effectiveness, and as a result, improve salesperson effectiveness.

## INTRODUCTION

This study focuses on the effectiveness of sales personnel in the heavy earth-moving industry. Effective sales personnel are especially important in the earth-moving industry because the products at hand are of high value and a sale leads to long-term commitment between the supplier and the customer. As a result, the strategic importance of an effective sales force, as well as sales force control, is widely acknowledged by managers and researchers alike (Jaworski 1988; Cravens, Ingram, LaForge & Young 1993; Bingham & Quigley 1994; Grant & Cravens 1996; Accenture 2003; Longino 2007). An understanding of sales force control factors is based on insights drawn from economic theory, organisational theory, cognitive psychology and leadership-subordinate research (Accenture 2003). One such factor is sales coverage.

The term sales coverage is defined as:

*the ratio of the total number of prospects in a salesperson's territory and the number of prospects that he or she can effectively approach.*

*(Business Directory, 2011)*

*The goal of directing the limited and expensive face-to-face sales calls toward those classic „golden moments“ and away from calls that could be handled by other contact strategies is the foundation upon which new sales coverage models are built.*

*(Fox, 2011)*

One important managerial challenge that faces sales managers is the coordination of the sales force by means of a control system. Drawing from the literature on control-system and fit theory, Flaherty, Arnold and Hunt (2007) suggest that individual, environmental and organisational factors combine to influence the effectiveness of control mechanisms. Sales managers within the earthmoving (and other) industries require an objective approach to the management and measurement of territory sales effectiveness. The efficient operation of a sales force is a critical element in the profitability of many firms. Three factors play key roles, namely the sales force's size, its allocation and its productivity. In addition, Horsky and Nelson (1996) state that managers could improve sales force performance through better sales coverage by:

- (1) hiring more salespeople;
- (2) allocating them more effectively to the various sales districts; and/or
- (3) improving salesperson productivity through better calling patterns in terms of consumers and product line items.

In this regard, the control-system to manage sales coverage effectiveness should provide sales managers with much of the knowledge required to make proper interpretations and decisions in a continually changing and increasingly competitive earthmoving industry. Taking this one step further, the study will establish the key requirements to developing a control-system to manage sales coverage effectiveness. This study then focuses on developing a sales coverage control system based on:

- the perceptions of sales personnel;
- the expectations of sales managers;
- in relation to the control-system outcomes.

## **PROBLEM STATEMENT**

A quantitative approach to evaluate territory performance has evolved from a series of events – the most significant being growth during 2007/8 in the construction sector that drove the requirement for change of the processes in order to be able to respond to market forces. The subsequent economic decline that followed after the 2007/8 boom resultantly also required increased sales coverage and improved management strategies to remain competitive in the market (Funding Universe, 2011). International competition and recessionary trends also deteriorated the market for capital equipment in the construction industry.

Resultantly, there is a problem at hand and a managerial model is required. This model or control system needs to be developed so that salesperson productivity could be managed and improved to face environmental challenges. This problem could be broken down further into:

- Improved territory allocation in terms of customer accounts and/or geographic area;
- Better calling patterns in terms of customer requirements or product applications; and
- Improving sales administration processes that alleviate salesperson intervention.

These are all relevant components that need to be addressed (Accenture 2003).

However, although these actions are applied in companies to manage the sales, it is done in isolation and not as an integrated model or control system. This provides the core of the problem at hand, namely to develop an integrated sales coverage model that can be used as a managerial tool to improve sales effectiveness.

## OBJECTIVES

The primary objective of the research is to develop an integrated sales coverage model that can be used as a managerial tool to improve sales effectiveness

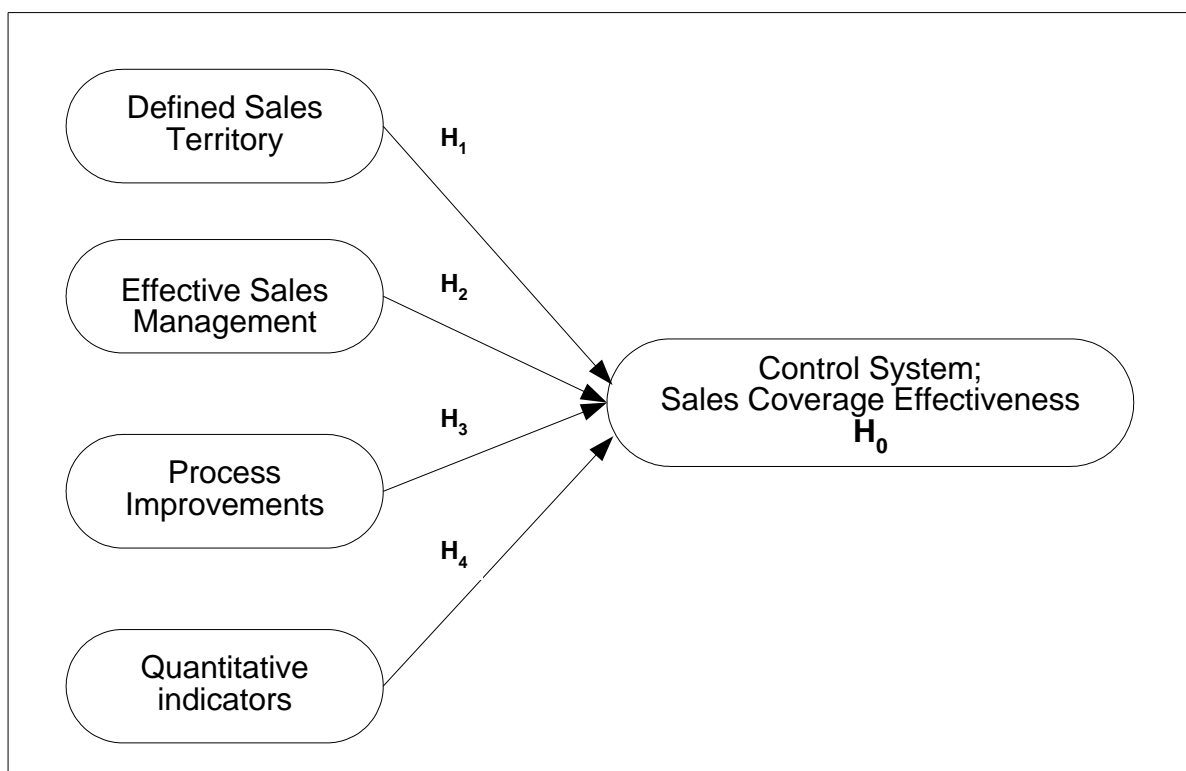
In order to achieve the primary objective, the secondary objectives are formulated to determine:

- sales personnel's perceptions of the key drivers of a control-system; and
- sales managers' expectations of an improved sales support control system.

## RESEARCH HYPOTHESES

The research hypotheses have been formulated and contextualised. The conceptual framework of the research is displayed in Figure 1.

**Figure 1: Research hypotheses**



### **H<sub>0</sub>:**

**A control-system to manage sales coverage effectiveness improves salespersons' effectiveness and impacts favourably on an organisation's market share.**

Several research foundations conceptualise salesperson sales management control as organisational factors that combine to influence the effectiveness of control mechanisms (Oliver & Anderson 1994; Flaherty *et al.*, 2007; Cravens, Piercy & Low 2006; Piercy, Cravens, Lane & Vorhies, 2006; Longino, 2007). These relationships provide the supporting logic for the conceptual framework.

### **H<sub>1</sub>:**

**A defined salesperson territory increases sales coverage effectiveness.**

Sales territory design is largely uncontrollable by the salesperson, yet is acknowledged by managers and researchers as an important factor enabling salespeople to perform well. The objective is to examine satisfaction with territory design from the perspective of the salesperson.

### **H<sub>2</sub>:**

**Effective sales management and support to salespeople improve sales coverage effectiveness.**

Management control represents a key dimension of running a sales organisation. Sales management control spans a continuum from behaviour control to outcome control. The former consists of managing the day-to-day behaviour of salespeople in their efforts to fulfil their job responsibilities. In contrast, outcome control encourages and rewards salespersons' results, such as sales volume, profit contribution and related outcomes (Longino 2007).

### **H<sub>3</sub>:**

**Effective sales through process improvements will result in improved sales coverage effectiveness.**

It is widely accepted that a well-designed organisation should include a control mechanism through which processes are defined. Sales management also decides which aspects of the process are to be measured and how these measurements are to be used to increase sales effectiveness. Collecting and processing territory and account information are major aspects of a



salesperson's task. To a large extent, salespeople's effectiveness depends on the amount and quality of the market information available to them (such as their customers' needs and potential or the likelihood of getting an order after some contact time). Although they are not always easy to disentangle, these information-gathering and processing activities on the one hand, and the effective contact time devoted to selling to clients and prospects on the other, compete for the limited time resources available to a salesperson (René 2002).

#### **H<sub>4</sub>:**

#### **Quantitative indicators are an integral part of the establishment of sales objectives and sales control.**

The use of figures to measure sales coverage effectiveness quantitatively is an objective measurement. Quantitative analysis can be directly compared to the objectives and the deviation of the sales effectiveness figures is an indication of how well the sales organisation has implemented business and marketing strategies in the market (Slater & Olsen 2000). In order to achieve the objective of „effective coverage“, a model should be developed to provide sales managers and salespeople the data required to make objective interpretations and decisions relating to current, former and future levels of sales effectiveness.

### **LITERATURE REVIEW**

Already in the early eighties, a variety of models of sales force control systems have been offered (Merchant, 1988; Eisenhardt, 1985). Most of these models can, however, be broadly classified as output-based, behavioural-based, or composite control systems (Anderson & Oliver, 1987).

- **Behavioural-based models** focus on the process by which sales are attained and not on the outcome or sale itself.
- **Outcome-based models** focus on the actual sale and the success or failure thereof.
- **Composite control models** were developed by Anderson and Oliver (1987) and define the sales management control system as the extent of managers' monitoring, directing, evaluating, and rewarding activities. To attain control, a variety of techniques are employed, such as to develop the organisation (Sager & Johnson, 1989), base evaluation

systems on effort as opposed to results (Leong, Randall & Cote, 1994), provide personal feedback, and to provide the salesperson with direction (Longino, 2007).

Existing knowledge on marketing and sales management control is based on two seminal conceptual developments:

- *Firstly*, Anderson and Oliver (1987), drawing from theoretical approaches in economics, organisational behaviour and psychology, conceptualise a formal management control framework and formulate propositions concerning the consequences of behaviour- and outcome-based sales force control systems on salespersons' cognitions and capabilities, affects and attitudes, motivation, behavioural strategies and performance.
- *Secondly*, Jaworski (1988) proposes a conceptualisation consisting of formal and informal dimensions of management control of marketing personnel. The resulting research propositions were rooted, to a great extent, in the management and accounting disciplines and were concerned with the antecedents (e.g. environment) and consequences (e.g. individual effects) of formal and informal control.

Although more recent work by Baldauf, Cravens and Piercy (2005) agrees with this general view of control, there is no consensus as to the construct conceptualisation and the extent to which control should be exercised. The current state of knowledge concerning sales management control indicates important inconsistencies in the conceptualisation of control and its consequences. It is important to take note that research initiatives have been fragmented, and that a research focus is in need of a comprehensive synthesis that organises the various studies that examine antecedents and consequences of an integrated sales management control system. This conceptualisation also recognises the effect of external and organisational constructs on control as well as the effects of control on salesperson motivation and identifies control as an important part of the responsibilities of sales force management.

The seminal work of Anderson and Oliver (1987) is supported by Miao, Evens, Kenneth and Shaoming (2006), who suggest that many sales force control systems are a mix of approaches, containing elements of both behavioural and outcome-based strategies. Behaviour-based and outcome-based controls are considered as the two polar opposites of this construct. The greater

the extent of involvement by sales managers in these activities, the more behaviour based the control system is. In contrast, sales managers employing outcome-based management control rely heavily on the market and the incentive reward system to guide sales people's activities

Miao *et al.* (2006) continue and state that the behaviour component of performance consists of the activities and strategies that salespeople pursue in fulfilling their job responsibilities. Examples of salesperson job activities that are considered relevant to behaviour performance include adaptive selling, teamwork, sales presentations, sales planning and sales support. Behaviour control is expected to have a positive impact on salespersons' behaviour performance (Chowdhury, 2007:239). The outcome component of performance is when salespeople produce outcomes from their activities, which are evaluated by managers. Outcomes may include sales, sales growth, market share, new customers and customer retention (Cravens *et al.* 2006).

Follow-up research by Piercy (2006) into sales organisation effectiveness indicates some of the productive approaches to be explored. The logic is that the overall result on which attention should be focussed is the effectiveness of the sales organisation in implementing business strategy and meeting organisational goals. Traditionally, management attention has focused on outcome performance as the main indicator of sales organisation effectiveness (i.e. salespeople meeting sales volume and revenue targets) (Cravens *et al.* 2006). However, if strategy requires the development of closer customer relationships and the implementation of a value-based strategy, then salesperson behaviour performance may be a more productive point of focus than outcome performance, i.e. not simply what salespeople sell, but the behaviours they undertake to achieve their goals and to build customer relationships

Further to the design of a control system to manage sales coverage effectiveness, a key advantage for increasing the effectiveness of a sales organisation is an effective territory design. The sales territory design defines the work responsibility for the sales force based on geographic and/or customer-based account responsibilities. Effective coverage therefore is a process that sales management is responsible for in determining how many accounts to assign to each salesperson, product responsibilities, and the geographical area covered (Piercy, Cravens & Morgan, 1999). The construct "optimum territory sizing/design implies sales coverage

effectiveness” plays an important role in evaluating salespersons’ satisfaction with the current sales territory design. When selecting or modifying the designs of sales territories, salespeople may evaluate the sales organisation structure, territory design, and/or the allocation of selling effort decisions (Longino, 2007). Achieving design improvements is an ongoing responsibility of salespeople, resulting in an enhancement of their satisfaction with their sales territory workload and design. The converse is also true: a poorly designed territory is expected to constrain the salesperson’s performance and coverage effectiveness.

Sales organisation effectiveness is an overall evaluation of outcomes attributable to the sales organisation. Effectiveness is distinct from salesperson performance (e.g. selling behaviours and sales results). While each salesperson contributes to the effectiveness of the sales organisation, other organisational and environmental variables also affect sales organisation effectiveness (Chowdhury, 2007:240).

It is conceptually useful to examine performance in terms of 1) the behaviour or activities carried out by salespeople, and 2) the outcomes that can be attributed to their efforts. These dimensions of performance are designated as behaviour and outcome performance (Chowdhury, 2007:240; Anderson & Oliver, 1987). Sales organisation effectiveness and salesperson performance are conceptually different, though related (Chowdhury, 2007:240-241). It is also useful to consider salesperson performance in terms of behaviour and outcome dimensions. Behaviour performance refers to various activities and strategies of salespeople in carrying out their job responsibilities. The results (outcomes) that salespeople achieve via their efforts and skills represent their outcome performance. Consequences of more planning, less call activity, a lower sell/non-sell time ratio, and “smarter” and “harder” selling techniques are predicted under behaviour-based control by Oliver and Anderson (1994) and Rouzies, Anderson, Kohli, Michaels, Weitz and Zoltners (2005).

Sales organisational effectiveness is an overall assessment of organisational outcomes, which is influenced partly by salesperson performance (Churchill, Ford, Walker, Johnston & Tanner, 2000:556). In this regard, Churchill *et al.* (2000: 559) state that salesperson performance relates only to factors that the salesperson can control directly, and that the crucial distinction between

performance and effectiveness is that the latter does not refer to behaviour directly; rather it is a function of additional factors not under the individual salesperson's control.

It has been proposed that management control decisions influence structural characteristics of the sales organisation, individual (salesperson) characteristics, behaviours, performances, and sales organisation effectiveness (Baldauf *et al.*, 2005). Sales organisation effectiveness, according to Slater and Olsen (2000), is an indication of how well the sales organisation has implemented business and marketing strategies. The effect of strategic orientation on sales organisation effectiveness has had limited attention, although there is a compelling case that the fit between business strategy and the sales management strategy will be a significant predictor of effectiveness. It was also indicated that the extent of the match between the type of business strategy and the sales management control strategy would affect the effectiveness of the organisation (Longino, 2007).

Examining the impact that sales automation has on salesperson effectiveness is also a key determinant of this study. While the benefits of implementing an automated sales force are said to affect all areas of sales management and facilitate the selling process (Longino, 2007), this study will focus on evaluating the salesperson's perception of importance in the construction equipment industry. Erffmeyer and Johnson (2001) contend that sales force automation was envisioned as the use of technology to enhance the sales process, which involves the conversion of manual sales activities into electronic processes via the use of software and/or hardware. Implementing sales automation software, everyone on the sales team – sales, marketing, order processing, customer service, administration and management – can access up-to-the-minute information, whether they are on the road, in a regional or corporate office, or even at home. Users can also produce reports for won and lost opportunities and sales forecasts. In addition, sales automation software enables salespeople to manage their time and activities as well as their customer lists, contacts, products, price lists, orders and electronic mail from remote regions (Stoddard *et al.*, 2002).

CRM technology components are designed to aid the sales force, acquire and retain customers, reduce administrative time, and allow efficient management of accounts (Speier & Venkatesh,

2002). For CRM technology to be effective, it must support the business processes that manage customer experiences (Greenberg 2001; Rigby, Reichheld & Scheffer, 2002). Therefore, CRM technology is not a substitute for effective relational information processes, but an enabler of their effectiveness (Jayachandran, Sharma, Kaufman & Raman 2005). There is a range of limitations associated with the use of sales force automation. According to Koivula (2006:20-28), there are three primary reasons for sales force automation failure:

- (1) the systems are often not easy to use for salespeople with limited technical skills;
- (2) there may be a lack of real support from top management; and
- (3) there could be a lack of proper financial support from top management.

In addition, Leadsloth (2009) adds that automation failure could also result from:

- (1) a managerial mismatch between sales and marketing objectives;
- (2) uninterested or change-resistant sales personnel; and
- (3) not generating enough sales leads to follow.

Salespeople could also feel threatened by technology, and their concern is that sales automation will give them *more* administrative work, which takes time away from selling and receiving commissions. However, automation failure that results from low sales leads is not supported by the prior research performed by Accenture (2003). This research showed that 62% of top- and sales managers do not perceive any problematic selling environment as a function of low sales lead scenarios.

## **RESEARCH METHODOLOGY**

In order to develop a control system to assist sales managers, both quantitative and qualitative research methods were used to better manage salespeople and their coverage. This research design made use of:

- a survey of the targeted salespeople (quantitative research); and
- one-on-one interviews conducted with sales managers (qualitative research).

The study focused on three sections:

- **Section A** dealt with the salespeople's perceptions of the generic issues of sales force management. The section covered two parts:
  - Part 1 directed the respondents' attention to thirteen statements where they had to indicate on a five-point Likert scale to what extent they agreed or not with the statement.
  - Part 2 focused on defining the order of importance of the listed process improvements that would apply to the salespeople that would enable the development of a control system to manage sales coverage effectiveness. Here, they had to rank the most to the least important process improvements.
  
- **Section B** dealt with the perceptions of the effectiveness, the importance and key drivers of a sales management control system in an organisation. It also covered two parts:
  - Part 1 dealt with the effectiveness and importance of a sales management control system, whereby nine questions were listed and the respondent had to indicate on a five-point Likert scale to what extent they believed the statement to be true: No extent (NE), Some extent (SE), Moderate extent (ME), Large extent (LE) and Very large extent (VLE).
  - Part 2 dealt with the perceptions of the key drivers (requirements) of a sales management control system implementation in an organisation.
  
- **Section C** dealt with reviewing information pertaining to the salespeople and their expectations of improved sales support processes within the organisation. This section covered a number of areas of sales management, i.e. call rate, sales planning, customer size, time utilisation and sales targets, and then also focused on obtaining input as to salespeople's expectations of an improved sales support process in an organisation. These open-ended questions required written input. These questions also related to key actions required to improve territory sales, what activities were preventing effective sales, and what they require from sales administration and sales managers to help them become more effective.

The total population consisted of 40 salespeople in South Africa (their responsibilities include sales of new and used heavy equipment within their allocated geographic area) who received the questionnaire. The total population was used to collect data. Of these, 26 responded, which represents a response rate of 67.5% of the sales force.

One-on-one interviews were conducted with three regional sales managers. They represent three geographic regions: Inland (Gauteng), Central (Bloemfontein) and Durban (KwaZulu-Natal). The Cape region did not have a sales manager at the time of the survey. Although they are a small population to base research on, it must be borne in mind that they are experienced sales managers who are responsible for a market worth in sales of R14.62 billion (Funding Universe, 2011). In addition, they are solely responsible for managing the entire sales of the company and its force in the South African market.

## **RESULTS**

Data analysis makes use of descriptive statistics to determine the perceptions of the sales personnel on the hypotheses tested. Mean values and mean percentages were calculated to present the data in the tables.

### **Demographic profile**

In terms of salespersons' age and sales experience, 46% were between 30 and 39 years of age and the majority (31%) have four to seven years of sales experience (see Table 1 for the demographic profile). Salespeople indicated that they only spend 34% of their time on sales contact with customers (selling activities); the majority of their time is consumed by administration (25%) and travel (24%) (non-selling activities). As for the sales managers, their average age was 41 years and the average sales experience was 2.5 years. However, their sales management experience averaged three years. They all expressed a need to develop a control system to support their sales team to manage sales coverage effectiveness within their region of responsibility. The survey focused on how coverage is managed at present and what key quantitative indicators are required to develop a control system to manage sales coverage effectiveness.



**TABLE 1: DEMOGRAPHIC PROFILE**

**Sample Characteristics**

**Gender**

Male	92%
Female	8%

**Age (yrs.)**

< 30	4%
30 to 39	46%
40 to 49	38%
50 to 59	12%
>60	0%

**Sales Experience (yrs.)**

> 1	27%
1 to 3	19%
4 to 7	31%
8 to 10	0%
>11	23%

**Salesperson Time Utilisation**

Travel	24%
Customer Contact	34%
Administration tasks	25%
Sales meetings	9%
Sales Planning tasks	8%

## RESULTS<sup>2</sup>

A formulation and discussion of the results follow the conceptual framework for the research (refer to Figure 1) and are divided into four parts:

- Defined Sales Territory (H<sub>1</sub>)
- Effective Sales Management (H<sub>2</sub>)
- Process Improvements (H<sub>3</sub>)
- Quantitative Indicators (H<sub>4</sub>)

### **Defined sales territory (H<sub>1</sub>)**

When asked „*Sales force improvements through optimum territory sizing will result in more sales than through optimum sales call per day*“ (H<sub>1</sub>), 77% of the respondents agreed to strongly agree with the statement. Also highlighted in Table 2a, a total of 65% of the salespeople agreed that „*A clearly defined salesperson territory increases sales effectiveness*“ (H<sub>1</sub>), and furthermore, 92% agreed to strongly agree that „*Sales coverage effectiveness can be a competitive advantage for an organisation*“ (H<sub>1</sub>).

As discussed in the literature research, an effective territory design is expected to positively affect salespersons' performance and will therefore have a positive effect on the sales organisation's effectiveness and market share. The salespersons' responses to whether they believed a direct correlation existed between coverage effectiveness and salespersons' effectiveness indicated that 71% believed the statement, suggesting that organisations have a great deal to gain by improving their territory designs.

A salesperson's territory must be properly sized so that they know what activities have occurred within their territory. A manageable customer base (territory) will facilitate a systematic update of a customer's ownership file and subsequent discovery of other new unit deliveries. The study results, according to Piercy, Low and Cravens (2004), also point to the need for managers to regularly monitor the suitability of the territory designs in their sales units. Their findings

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<sup>2</sup> Tables 2-5 appear in Appendix A because they are not sequentially referred to throughout the discussion. The information in the tables pertains to a number of paragraphs. Affixing the tables within specific paragraphs could be confusing.

emphasise the importance of management evaluating the fit between territory design and sales strategy.

Approximately 40% of the respondents largely agreed that „*Realigning territory and customer accounts per salespeople*“ (H<sub>1</sub>) would positively contribute to an effective sales management control system (as indicated in Table 3a). The most important process improvement identified by the salespeople that would enable the development of a control-system to manage sales coverage effectiveness was „optimum territory sizing“, therefore supporting:

**H<sub>1</sub>:** *Defined salesperson territory increases sales coverage effectiveness.*

### **Effective sales management (H<sub>2</sub>)**

The term sales management implies the manager of the sales team and the management of the process. This study focuses on identifying areas for improvement required to effectively manage the sales force. A series of questions were asked through one-on-one interviews to determine how sales coverage is managed and what key quantitative indicators are required to develop a control system to manage sales coverage effectiveness. Three regions were targeted – narrative comments from the sales managers show trends toward:

- (1) Territory planning is not formalised;
- (2) Sales call rates and targets vary depending on geographic region;
- (3) Number of accounts and sales planning process are not formalised;
- (4) Streamlining daily administrative processes is key to improving sales; and
- (5) Greater interest in the use of qualitative measures.

These comments are supportive of the hypothesis **H<sub>0</sub>**; *a control-system to manage sales coverage effectiveness improves salespersons' effectiveness and impacts favourably on an organisation's market share.*

Salespeople were asked: „*What do you require from your sales manager that will help improve your coverage effectiveness?*“ The input clearly highlights that sales management should provide clear goals; reducing administration and participation (coaching) is instrumental to enhancing salespeople's ability to improve their coverage effectiveness. One can conclude from this that a

critical role of a sales manager is to increase salespeople selling days, which will also increase their sales coverage effectiveness.

Based on prior research by Cravens *et al.* (2006), the sales unit design and outcome performance relationship evaluated in eight countries proved significant and positive for five countries and partial for the other three, suggesting that sales unit (team) design is expected to be positively related to salesperson performance and sales unit effectiveness. The underlying logic is that salespeople will perform better and sales units (team) will be more effective the better the design of the sales units is.

A review of the survey results in Table 2a indicates that 83% of salespeople agree to strongly agree with the statement that *„Sales managers are ultimately responsible for developing a control system to manage sales coverage effectiveness through defining key process improvements“* (H<sub>2</sub>). Sales management can also be regarded as a function of improved process implementation and management. To this end, salespeople were asked, *„What other activities are preventing you from improving your territory and sales efficiency?“* (H<sub>2</sub>).

In Table 2b, which highlights the most important process improvements, the second most important process improvement identified by the salespeople that would enable the development of a control system to manage sales coverage effectiveness is to *„Improve sales manager“s overall support to salespeople“* (H<sub>2</sub>). This statement is further validated as a key driver of a sales management control system, where 80% agreed to a large extent and to a very large extent that *„An improvement in the effectiveness of sales managers will result in a salesperson“s effectiveness“* (H<sub>2</sub>). From the above, sales managers play a key role in managing and supporting; their effectiveness has a direct impact on salespersons“ coverage effectiveness.

In determining the key drivers of a sales management control system implementation in an organisation, 10 drivers were listed in Table 3b, where 52% largely agreed with *„Effective sales management and support to salespeople“* (H<sub>2</sub>) that would positively contribute to an effective sales management control system implementation. Part of the sales support function, relative to effective sales management, is providing the sales force with product expertise. When reviewing

the questionnaire with the sales managers, they wanted to determine the importance of appointing product managers to support salespeople with product training and earthmoving application training and support. The response indicated that 70% of the salespeople agreed that by “*Appointing product managers would positively contribute to an effective sales management control-system*”. In Table 4c, sales administration is repeatedly identified as a key success factor in improving sales processes, for example to coordinate non-sales activities like after-sales service, pre-delivery inspections, and sales deliveries. All of the above lead to the conclusion that:

**(H<sub>2</sub>)** *Effective sales management and support to salespeople improve sales coverage effectiveness.*

### **Process improvements (H<sub>3</sub>)**

A sales effective process can help sales people do the right things to stay organised, focused and on top of their game. An effective process can be said to be a structure for continuously improving sales force performance through focus, discipline and a process built on a platform of accountability. From the survey, one could agree with this position as 54% of the salespeople agreed with the statement as presented in Table 2a, that: “*Salespeople effectiveness through process improvements will result in increased sales*” (H<sub>3</sub>). Further supporting hypothesis H<sub>3</sub>, salespeople strongly agreed (84%) that “*By reducing salespeople administration will result in more sales than through optimum sales calls per day*” (H<sub>3</sub>). One can conclude that in order to achieve optimum sales calls one would need to have processes in place to facilitate effective sales calls. This statement is validated in Table 3a, where 60% of the respondents agreed with the statement to a large extent that “*Process improvements will allow for more available days to sell*” (H<sub>3</sub>). A function of improved sales rate or improved sales efficiency is improving a salesperson’s time available to effectively sell (customer contact). When asked to evaluate the importance of process improvements that apply to the development of a control system to manage sales coverage effectiveness, “*Define sales administration support process*” (H<sub>3</sub>) was ranked third most important out of the 10 listed. To validate, salespeople were asked how their sales call rate per day could be increased. As shown in Table 4a, “*improved administration support*” was the second most important change required. These are the key areas in which change is most needed to improve sales call rate per day.

The findings of Pettijohn *et al.* (2001) indicate that the attainment of sales objectives and the creation of new sales accounts are the criteria that salespeople would like to eliminate from the evaluation process. The reason being that salespeople believe that these factors are out of their control and should not enter into performance appraisals. That being said, by increasing their effective time to sell, it increases their ability to influence the sales process where they have control. From the sample characteristics (Table 2.1), administration tasks, sales meetings and sales planning tasks take up to 42% of the salespeople's available time, leaving only 34% of their time to effectively sell. Considering that process improvements and reduced administration lead to increased effective sales and sales call rates, proves the hypothesis:

**H<sub>3</sub>:** *Effective sales through process improvements will result in improved sales coverage effectiveness.*

#### **Quantitative indicators (H<sub>4</sub>)**

It is widely believed that clear goals and goal setting are one of the most effective and widely used theories of motivation in an organisation. Goals direct one's attention to what is important and therefore cause people to direct their efforts towards things that have the greatest influence on their performance (Coetsee, 2003:109). Salespeople are in a vantage position to have intimate knowledge of their customers. How to motivate them to be effective information retrievers becomes a challenge to sales managers in the environment. Results by Liu and Comer (2007) indicate that supervision and upper management support associate significantly with the effective information retrieval of salespeople.

The survey results indicated that 72% of the sales force agree to strongly agree that the „*Most effective measurement of a territory sales result is PINS (percentage industry new sales)*. A function of PINS is *participation* in sales deals, and *closure*; the ability to close the sales deal. Setting targets is important in achieving a participation and closure rate that converts to sales, which should achieve a set target per month. When asked „*What is you current call rate per day?, and what is a realistic call rate per day?*“, salespeople reported three units current versus four units as realistic. This indicates that they are visiting one customer less per day than what they regard as a realistic target. The sales administration process highlighted in Table 4d,

according to salespeople, is inefficient and improvement would help their sales coverage effectiveness.

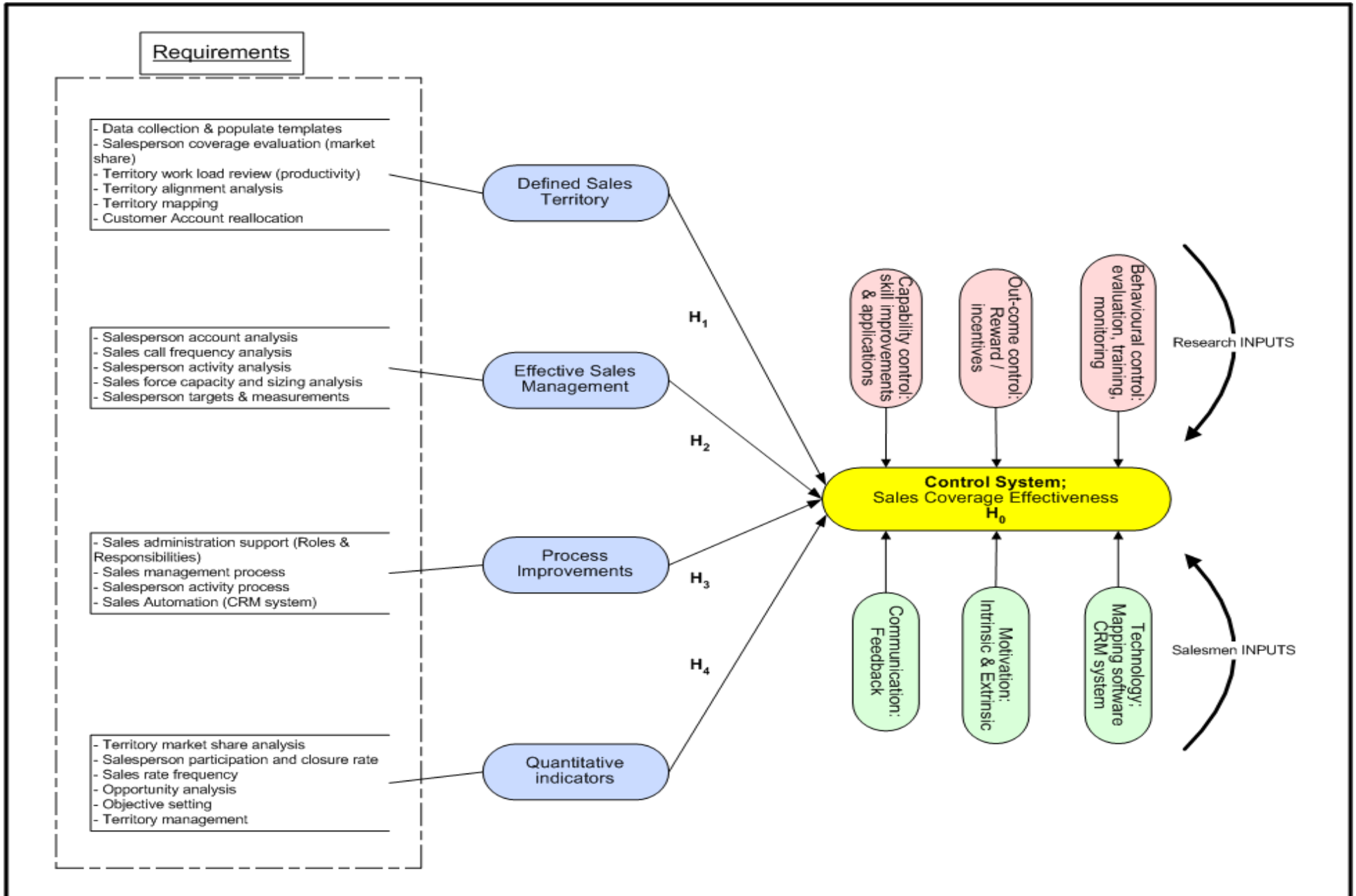
While the study focused on determining firstly, whether sales processes had any effect on sales efficiency, and secondly, what processes would improve the sales efficiency, the result as indicated in Table 4b clearly identifies the sales administration department as the key area that would help to improve their coverage effectiveness.

To further understand what is required from the sales administration department to support the salespeople function, the survey prompted a written response to which the salespeople recorded in Table 4d that improved ownership and control of the sales administration tasks are required, and that clear roles and responsibilities with metrics and measurements are further required to ensure they offer quicker and consistent communication of all sales administration tasks.

In terms of identifying salespersons' expectations of their sales managers, in Table 4e, salespeople support and clear goals are recorded as the key ingredients to improving salespersons' effectiveness. Brown and Peterson (1994) state that uncertainty about certain aspects of the job inhibits a salesperson's ability to perform and has a negative impact on job satisfaction.

Developing a control system to manage sales coverage effectiveness, salespeople were asked to rank the importance of each of the 10 processes listed in Table 3b that will enable the development of a control system to manage sales coverage effectiveness. To validate these processes, 40% of the salespeople agreed to a large extent that *„realigning territory and customer accounts per salesperson (H<sub>4</sub>) is a key driver of increased sales effectiveness“*, and with *„simplifying data collection from salespeople“* (H<sub>4</sub>), 60% agreed to a large extent that this would improve their sales effectiveness.

**Figure 2: A control system to manage sales coverage effectively**





From the literature review, Anderson and Oliver (1987) suggest that sales managers use control systems to evaluate, monitor, direct and reward the way in which salespeople carry out their responsibilities. Control ultimately evokes a situation where one party is subject to a mechanism and the other wields it.

The *Key Coverage Indicators* and *Required Reports* to manage key coverage indicators, as shown in Table 5, captured from the sales manager interviews, coupled with the important process improvements identified and the salespeople's validation of the requirement to have clear and defined goals, lead one to propose that:

**H<sub>4</sub>:** *Quantitative indicators are an integral part of the establishment of sales objectives and a sales control system that will result in improved sales coverage effectiveness.*

The control system model as compiled from the research and set hypotheses is shown in Figure 2.

## **MANAGERIAL IMPLICATIONS**

The managerial implications of this research are based on the initial problem at hand, namely that there is no model to integrate sales management activities. The activities investigated were to:

- improve territory allocation in terms of customer accounts and/or geographic area;
- better calling patterns in terms of customer requirements or product applications; and
- improve sales administration processes that alleviate salesperson intervention.

These were all relevant components that needed to be addressed (Accenture 2003).

From a management perspective, it is clear that these and other managerial actions do focus on sales management and territory coverage. However, it is done in isolation and within an integrated model or control system. This research then provides the core implication of the research for management, namely that an integrated model to manage sales coverage effectiveness has been developed.

Other implications are that:

- the four key areas in sales coverage have effectively been identified. They are defined as sales territory, effective sales management, process improvements and quantitative indicators;
- each of these areas has been measured and the model also provides the criteria that explain how to measure each of these key areas separately;
- the model provides a practical guide that can be used by managers to improve one or more of the sales coverage effectiveness variables, individually as well as within an integrated model system; and
- the model is in the public domain and can be applied without any cost to a company;

## **CONCLUSION**

From this study, it can be concluded that an effective sales control model could be developed. The model consists of four key variables, namely sales territory, effective sales management, process improvements and quantitative indicators. Each one has been tested in the empirical research and accepted as a key variable in the model. This research also provides an integrated model where the three variables are incorporated to form a model that can be used to manage sales in the company better.

## **SUMMARY**

Developing a sales control-system to manage sales coverage effectiveness has revealed that salespeople are dissatisfied with the time they spend selling product. Salespeople indicated they only spend 34% of their time actually selling; 66% of the time they are performing non-selling activities. Sales management and administration were determined as the key areas that required improvements in order to increase their effective *selling* days. The perception of the sales force is that defining their territory will improve their sales management and productivity. Through improved sales processes they will increase their effective selling days. Coaching and sales process management would enhance salespersons' performance. Finally, an integral part of the

control system development is to establish sales objectives using key quantitative indicators and implementing a sales control system.

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**APPENDIX A:**

<b>Table 2a</b>						
<b>Key sales Management activities</b>						
<b>Activities</b>	<b>Rank Assigned by Responses *</b>					<b>Total Points</b>
	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>	
Sales coverage effectiveness can be a competitive advantage for an organisation	12	12	2	0	0	114
Salesmen effectiveness through process improvements will result in increased sales	10	14	2	0	0	112
By clearly defining a salesperson's territory increases sales effectiveness	8	17	0	1	0	110
By reducing salesmen administration will result in more sales than through optimum sales calls per day	11	11	2	2	0	109
There is a direct correlation between coverage effectiveness and salespeople effectiveness	7	17	1	1	0	108
Sales managers are ultimately responsible for developing a control system to manage sales coverage effectiveness through defining key process improvements	7	15	3	1	0	106
Understanding ones customer base through segmenting customers by product application, helps salespeople increase sales	5	17	2	2	0	103
Sales force improvements through optimum territory sizing will result in more sales than through optimum sales calls per day	6	14	4	2	0	102
The most effective measurement of a territory sales result is market share	8	11	1	5	1	98
Salespeople are accountable for the sales results in their territory	7	11	3	5	0	98
By implementing a CRM system to support salespeople in managing their territories, will increase salespeople effectiveness	3	6	11	5	1	83
Monthly call reports do increase salespeople effectiveness	1	10	9	3	3	81
Setting sales targets (units per month) will result in more sales than through optimum sales calls per day	2	8	6	10	0	80
* To what extent do the statements contribute positively to an effective control system, 1 being 'No Extent', 5 being Total points are calculated by multiplying the number of responses by rank value assigned by respondents.						



**Table 2b**

**Most important process improvements that will enable development of a control system to manage sales coverage effectiveness**

<b>Process Improvements</b>	<b>Total points</b>
Optimum Territory Sizing	99
Improve Sales Manager overall support to salespeople	101
Define sales administration support process	109
Segment coverage analysis (opportunity analysis)	113
Develop salespeople performance objectives (by territory)	125
Optimum salespeople account size	132
Implementing CRM system on all PC's	132
Implementing Territory Sales Mapping Process*	141
Establish sales discount support process	144
Improve complete machine population file (data base)	145

\* Mapping Process: using software to graphically map each salesperson's territory by sales, by postal code

The ranking given by respondents with 1 being the most important, 10 least important. Total points are calculated by adding the total number of responses by question.

<b>Table 3a</b>						
<b>Most important qualitative measure used in assessing the effectiveness of a sales management control system</b>						
<b>Measure</b>	<b>Rank Assigned by Responses *</b>					<b>Total Points</b>
	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>	
That process improvements will allow for more available days to sell	11	7	6	1	1	104
That an improvement in the effectiveness of sales managers will result in salespeople effectiveness	7	13	4	2	0	103
That salespeople effectiveness will directly lead to increased sales market share	7	12	6	0	1	102
Should your company not implement a control system to manage sales coverage effectiveness, it will fail at improved market share	9	9	5	2	1	101
That the effectiveness of a salesperson can depend on how long they have been in their territory (learning curve)	5	15	3	2	1	99
That sales force capacity & size affects customer coverage and effort	4	11	9	0	2	93
That your organisation has fully implemented a sales management control system (optimum sales process & coverage)	4	12	5	3	2	91
That the effectiveness of implementing a control system is an important leadership challenge for your organisation	3	9	10	3	1	88
That the current salespeople customer base (accounts) is adequate and can cover the base sufficiently	2	5	10	6	3	75
<p>* To what extent do the statements contribute positively to an effective control system, 1 being 'No Extent', 5 being 'Very Large Extent'.</p> <p>Total points are calculated by multiplying the number of responses by rank value assigned by respondents.</p>						

<b>Table 3b</b>						
<b>Key drivers of sales management coverage system implementation</b>						
<b>Key drivers</b>	<b>Rank Assigned by Responses *</b>					<b>Total Points</b>
	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>	
Effective sales management and support to salespeople	8	13	3	1	1	109
Simplifying data collection from salespeople	6	15	3	1	1	107
Realigning territory and customer accounts per salesperson	8	10	4	3	1	104
Improving marketing support i.e. call centre, leads generation	6	11	5	3	1	96
Appoint Product Managers to support salespeople product/application specific requirements	7	10	3	3	3	93
Integrating the service marketing function within a sales team	2	13	9	0	2	91
Appoint a National Sales Manager that will execute a sales management control system	6	7	7	4	2	89
Restructuring the sales and administration departments	4	9	6	6	1	87
Provide mapping software to visualize coverage, sales results, territory management, etc.	4	7	9	5	1	86
Increasing number of salespeople	0	4	14	4	4	75

\* To what extent do the statements contribute positively to an effective control system, 1 being 'No Extent', 5 being 'Very Large Extent'.  
Total points are calculated by multiplying the number of responses by rank value assigned by respondents.

<b>Table 4a</b>	
<b>Area in which change is most needed to improve sales call rate per day</b>	
<b>Change Requirement</b>	<b>Total points</b>
Territory Planning and management	53
Improved administration support	62
Realigned territory	69
Implementing a Call Centre* to generate sales leads	79
Reduced customer accounts	109

\*Call Centre; Telephonic communications to determine customer purchase interest

The ranking given by respondents with 1 being the most important, 5 least important.  
Total points are calculated by adding the total number of responses by question.

<b>Table 4b</b>
<b>Key actions required to improve salesperson's sales coverage efficiency</b>
<p>Improved stock management system that provides accurate availability</p> <p>Less sales administration and sales meetings</p> <p>Spend more time with Customers</p> <p>Better territory planning and alignment</p> <p>Improved sales administration process with defined roles and responsibilities</p> <p>Qualified customer data base to improve call planning</p> <p>Spend more time in territory, get to know customer better, do more trade machine shows</p> <p>Feedback from sales administration must be faster, with accurate information</p> <p>To improve pricing, stock availability and support structures</p> <p>Improved sales management assistance and less administration</p>

<b>Table 4c</b>
<b>Activities preventing salespeople from increasing their sales coverage efficiency</b>
<p>Running around chasing predelivery inspections, following up deliveries and paper work</p> <p>Inefficient quoting process takes too long, little flexibility due to SAP system</p> <p>Having to coordinate service related jobs and administration</p> <p>Too many meetings, excessive traveling, service problem solving</p> <p>Performing tasks which are not part of my job description i.e. administration</p> <p>Too much administration and involved in machine registration</p> <p>Lack of sales management support</p>

<b>Table 4d</b>
<b>Area where salespeople felt the sales administration department would help to improve their coverage effectiveness</b>
<p>Quicker response on establishing machine sales price</p> <p>Improved ownership and control of the sales administration tasks</p> <p>Better sharing of information i.e. machine availability, change in specifications</p> <p>Clear role and responsibilities and metrics and measurements</p> <p>Consistent communication of all sales administrative issues on a monthly basis</p>

<b>Table 4e</b>
<b>Area where salespeople felt a sales manager would help improve their coverage effectiveness</b>
Participating in customer visits to help close the deal Clearer understanding of the sales and after sales process More tools to develop proposals/presentations More sales and product training programs Defined territory and customer base Reduced meetings & sales administration Quick decision making and better product availability More coaching and improved objective setting process

<b>Table 5</b>
<b>Key Coverage Indicators</b>
Territory opportunity (units / value) and territory sizing Ownership of customer purchase data Market share measurement (population & new sales) Sales call frequency (target according to defined territory) Sales data management : turnover, units, market share Salesperson's sales target setting
<b>Required Reports to Manage Key Coverage Indicators</b>
Salespeople key coverage Indicator consolidation sheet Machine Sales Coverage Indicator Report Salesperson Objectives and Results Report

# ARGUING A CASE FOR DESIGN-LED BRANDING THROUGH THE CONVERGENCE OF MARKETING AND DESIGN THINKING

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## **ARGUING A CASE FOR DESIGN-LED BRANDING THROUGH THE CONVERGENCE OF MARKETING AND DESIGN THINKING**

### **ABSTRACT**

This paper examines the nature of corporate identity and branding and the rapidly increasing role of design –led branding, and argues that brands comprise an essentially visual experience. The debate about the relationship of marketing and design reveals widely held cross-cultural perceptions. Many design schools give wrong signals to corporations by producing artist designers with little business knowledge. Whilst leadership is established among the marketing community, some designers acquire increasing awareness regarding the importance of strategic business, particularly those designers engaging with progressive postgraduate programmes. The paper is of a conceptual nature and based on the grounded theory approach. A comparative study, integration of arguments and case study approach is followed. Case studies demonstrate the power and creative potential of designers to lead major branding/rebranding programmes. Both marketers and designers are converging in their agreement on the value of systems and holistic thinking, and investing much intellectual effort into defining problems and generating creative alternatives. Strategic designers are no longer strange lonely artists detached from the world around them, but “people” confident in their roles in multidisciplinary teams. A synthesis of design–led branding research shows that education, thinking styles and other characteristics of designers and marketers are converging. Three conceptual views of the current relationship are offered to inform this convergence. An opportunity exists for marketing and design to explore convergence and create new cross-disciplinary models supporting collaborative working. Questions about such issues as cultures, semantics, added value to corporate brands, storytelling and leadership require more attention. The complex challenges of designing a corporate identity and building a corporate brand through designing a great customer experience need high quality multifaceted thinking.

**Key phrases:** corporate identity, branding, design, marketers, designers, designs,  
brand territory, marketing

## INTRODUCTION

For a variety of reasons, both academic and business interests in corporate identity and branding have increased significantly in recent years. Organisations have realised that a strong identity can help them align with the marketplace, attract investment, motivate employees and serve as a means to differentiate their products and services. Logotypes, leaflets, packaging and signage provide visual cues to reinforce the values of the organisation to the customer. Advertising and promotional activity make consumers aware of new products, and give a message to the consumer about the product and/or service available (Bruce & Daly 2007). Aldersley-Williams (1994) stated in Balmer and Gray (2003) that „designers talk strategy, but like pretty shapes and colours.“ He failed to acknowledge that there is a growing body of design management educators, researchers and strategists who are contributing valuable new thinking about using design as a strategic resource. Yet, six years previously, Aldersley-Williams (1994) had argued that it is imperative for designers, marketing and other managers to work together when creating corporate identity schemes. However, Powell (2007) argues that the problems remain current in identifying concerns by business owners and managers about “creative mavericks”.

Marketing requires design expertise to meet customer needs and communicate brand values through a myriad of elements, namely products, packages, corporate identity, advertising and environments, such as a retail outlet or a restaurant (Bruce & Daly 2007). Riezebos, Kist and Koostra (2003) argue that in a brand strategy, several instruments are used to achieve set goals. For several of these instruments, design plays a large role. Design can differentiate products (goods and services), create a unique selling position, and arouse feelings of desire and interest. Whether it be technical performance, style, reliability, safety or ease of use, design can make qualities visible. Consumers can be influenced in their decisions by design; it is therefore advisable to handle this instrument with care.

The article opens with a brief overview of the nature of corporate identity and the evolution of brands. This is followed by an examination of the brand territory of marketers, the conflicting views that exist on design, and the question whether designers are their own worst enemies. The article concludes with the provision of a new paradigm of thought for the integration of design and marketing thinking. What is clear is that both marketers and designers are



converging in their agreement on the value of systems and holistic thinking, and investing much intellectual effort into defining problems and generating creative alternatives.

## **NATURE OF CORPORATE IDENTITY**

More than one hundred years ago, in one of the most famous cases in Company Law, a corporation became established as a separate legal entity *Salomon v Salomon & Co Limited* 1897, separate from its members, its directors, its employees and its creditors. Thus it acquired the status of a “legal person” and, like every human being, needed to develop its personality and identity. But, of course, an organisation has no mind of its own, but is rather an abstraction. Its “mind” can only be regarded as the collective minds of the stakeholders, and the questions and even disputes about their inherently contradictory needs and desires can be seen in the chronicles of court cases over the last century (Drucker, 1964)

The balancing of the stakeholder interests falls on the Board of Directors which has much power but also great responsibility to act in the best interests of the organisation. As a general principle external stakeholders are entitled to assume, unless they know or have reason to suspect something to the contrary, that the directors are empowered to act on behalf of an organisation. Thus the principal guardianship of the corporate personality/identity rests with the Board of Directors. Fundamentally the corporate identity/brand is the personality of the organisation as an abstract being brought to life. The challenge remains to convince all stakeholders to engage with and trust an abstract entity (De Mozota, 2003).

In 1931 Procter and Gamble Directors created an entire business function based on brand management (Crainer,2000). By giving responsibility to a single individual they evolved to a systematic brand management approach. Slowly, brand management became an accepted functional activity, and the devolution of responsibility for the corporate personality reflecting its identity shifted from the Board of Directors to the professional brand manager. Current trends reflect an emphasis on branding the organisation, since many of the world’s best-known brands are companies rather than products (Baker & Hart, 2007). Since the early 20<sup>th</sup> century brands have been brought to life in various ways, some have suffered stillbirth, some have undergone major surgery, some have soared and thrived. Marketers have lead the way, but the creation of enduring and highly successful brands can often be attributed to the special visual skills of designers who have a unique capacity to deliver the brand as a reflection of the human condition (Olins 2007).

In the first authoritative book on the subject of corporate identity, Henrion and Parkin (1967) wrote, „The planning and implementation of the design coordination and corporate image programme must be accepted as a top managerial responsibility. Success can only be achieved by close collaboration between management and designer.“ It is clear that the broad concept of convergence between management and design was already identified, even at this early stage in its history.

## **ORIGINS AND EVOLUTION OF BRANDS**

Brands began as ancient visual icons which represented the corporate identity of groups of people coming together or forming collectives, creating associations of one kind or another with a common set of rules, objectives and beliefs which display what might be described as identity traits. Examples of such groups embrace ancient civilisations such as The Incas, The Aztecs, The Romans and The Egyptians. All four examples have left a very rich legacy of powerful design themes which act as a visual identity in part or as a whole, and include the design of buildings, clothing, artefacts, jewellery and alphabets, as well as decorative patterns and styles. In other words, identity has been a natural tendency of man and his/her collective institutions, who need to identify or brand themselves in a certain distinctive way (Maciariello, 2009).

More recent examples might include the many colourful tribes that once made up powerful and proud nations and have since become assigned to playing more of a historic or symbolic role; such tribes include the Aborigines in Australia, the Masai from Africa, the Inuit from Alaska and the Native Americans across North America – The Comanche, Sioux, Apache and others. The Church is another interesting example which has designed recognisable symbols and created outward signs of its intended message since the new world began (Molotch, 2003). Such „iconic“ logos as the cross (Christian), the crescent moon and star (Muslim) and the Star of David (Jewish) are recognised by millions of people across the world. Over the centuries this basic corporate design idea has also been applied to identify nations, monarchies, armies and governments. Brand Identity came into its own in the UK during the Victorian Era’s Industrial Revolution. There was a proliferation of brands during this time, many with names and identities that have survived to this day. Such brands included Fry’s Chocolate Cream in 1866, Lifebouy Soap in 1884 and Bovril in 1886 (Opie, 2005).

The quest for powerful symbols remains at the heart of the corporate identity, and brand managers are seeking designers who can understand and support the corporate strategy and brand values of the organisation. The objective is to ensure that the brand image reflects what the organisation is about (Best, 2006). Olins (1978) in his seminal work on “The Corporate Personality” described the brand in its purest form as „a figment of the marketing man’s imagination.“ He likened it to a ventriloquist’s dummy which can be picked up and put down again whenever they [corporate marketing people] feel like it. Furthermore he said the consumer can react to the dummy, but the dummy cannot respond by itself; it is manipulated by the organisation. He regarded attempts to define the differences between corporate personality, corporate image and corporate identity as, for the most part, trivial.

Nevertheless, branding is essentially a visual experience. Not just the symbolic core, but every aspect of the stakeholders’ touchpoints with the brand is essentially visual. Thus the entire experience has to be designed (Pine & Gilmore, 1999). It is important that the brand can be experienced through any point of contact with the organisation (Nagai, 2003). If there is no physical manifestation of the experience, the brand remains as abstract a concept as the “legal entity” persona acquired when the organisation was registered.

Henrion and Parkin (1967) observes that corporations not only have citizens, they are citizens and they have both rights and responsibilities. He insists that companies are expected to behave decently. What is decent is the delicate balance for brand leaders. Too decent may be equated to sluggish and boring, whilst too indecent may attract attention and media interest but disturb sensibilities. Perhaps the best known example of this is the Benetton campaign which clearly set out to generate controversy and divide opinion. Even good human beings are not expected to be flawless in their character, so perhaps the concept of a flawless corporation is unrealistic and the quest to design the perfect brand experience is undesirable.

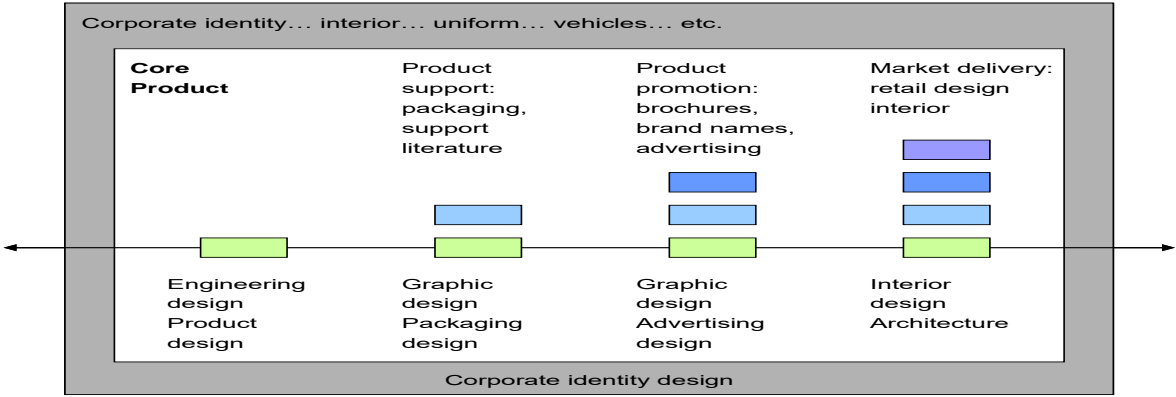
## **MARKETERS BRAND TERRITORY**

Despite all the evidence of visual roots of branding, marketers claimed the territory of branding. As recently as 1999, one of the major writers on marketing, read widely in business schools globally, dismissed design as a PR tool for logos, stationery, brochures, signs, business forms, business cards, buildings, uniforms and company cars (Kotler, 1999). This is

particularly surprising since Kotler and Rath (1984) published a paper of great influence on the origins of design management thinking in which they made a well-argued case for design as a powerful but neglected strategic resource.

A review of a large selection of major marketing texts for business and MBA education reveals a dearth of material about the role of design, even at its most basic level. Marketing texts which offer an integrated evaluation of design and marketing, are by contrast, rare. An example is taken from *The 22 Immutable Laws of Branding* by Al and Laura Ries, both distinguished marketers (Ries, 2003) - Law 16: The Law of Shape, and Law 17: The Law of Colour (sic). The only time the „design“ word is mentioned in these two chapters is „A great deal of effort has gone into creating elaborate symbols for use in logotypes. These have poured out of America’s *design* shops in great profusion and, for the most part, these are wasted“. The authors go on to say that most have little to do with creating meaning in the consumers’ minds. A summary of some key marketing books in both categories may be found in Appendix A. Cooper and Press (2003) showed how design interfaces with different parts of the organisation, and how the engagement builds to become an integral role in the delivery of the brand experience. See figure 1.

**Figure 1: The organisation’s need for design**



(Cooper & Press, 2003)

In industry, the number of marketing-led firms still far outweigh those who embrace design, despite all of the evidence that design –led firms outperform others (Rich, 2004). Although the idea that general managers should learn from design managers was identified in 1998, the full potential of design has not been explored. However, there are good examples of marketing and design cooperation. The designs and marketing campaigns of the Classic Mac

computer demonstrates integrated contributions of design, marketing and other stakeholders that lead to great success. Firstly, the name, Apple, helps by differentiating the brand from other companies, e.g. IBM, UNIX and Sun Microsystems. Apart from its user-friendly sound, the visual identity represents several philosophies. The first logo was a drawing of Sir Isaac Newton sitting under an apple tree with a William Wordsworth's poem running around the border – *"Newton... A mind forever voyaging through strange seas of thoughts alone..."* Although this logo has been replaced, the underlying philosophy, "Think Different", has been used as a slogan since 1997. This kind of "joined-up" thinking was shown to achieve vivid corporate identity, vibrant corporate brand and added-value product brand (Webster, 2009; Lester *et al.*, 1998).

The second logo was best described by Jean-Louis Gassée, the President of Apple Products (cited in Linzmayer, 1999) as: *„One of the deep mysteries to me is our logo, the symbol of lust and knowledge, bitten into, all crossed with the colours of the rainbow in the wrong order. You couldn't dream of a more appropriate logo: lust, knowledge, hope and anarchy."* The lust refers to the metaphor created by the story of Adam and Eve in The Garden of Eden where Eve was tempted to take a bite from the forbidden fruit – the apple. Insightful visual design thinking was demonstrated through all its details. For instance, a bite (or byte) on the right hand side, prevents the apple from looking like a cherry tomato. Further, the six colours represent the colour capabilities, which were considered novel at the time. Even though the logo has been updated recently using a metallic treatment to reflect the cutting edge of digital technology, the main essence of the design has been maintained (Figure 2) (Webster, 2009; Lester *et al.*, 1998).

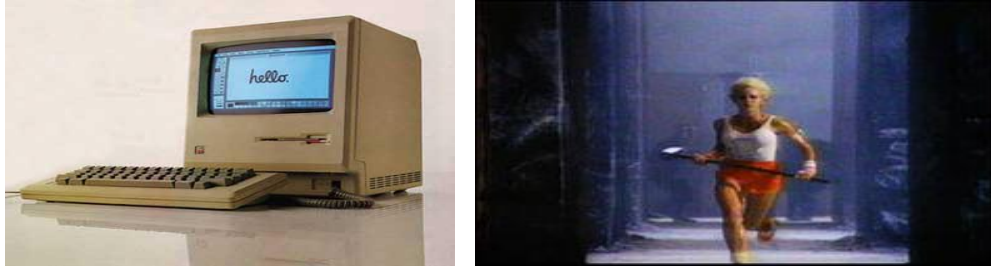
**Figure 2: Evolution of Apple Computer Logo Design**



The success of the Classic Mac computer came from its superior design. This design formula, combining a monitor and computer in a single unit, has proved to be successful even in the present market, as the design of the iMac was based on the original Macintosh. The marketing campaign for the Classic Mac was also considered evolutionary – an athletic heroine

portrayed the coming of the Macintosh as a means of saving humanity from "conformity." See Figures 3 and 4.

**Figure 3: The designs of Classic Mac and the 1984 Marketing campaign**



**Figure 4: The new designs which represent Apple design philosophy  
(For example, colours of iMac reflect the colours of the previous logo)**



However such fine examples remain a minority and the communication and cultural gap between the two professions remains. Marketers and management trained in business school paradigm are generally better prepared to use their left brain (Pink, 2005). Designers from a design school paradigm largely use their right brains. Few are using their entire brain. Over the past 15 years at Brunel University where some of the authors are engaged, the Masters Design Strategy programme encourages students to do just that, embracing design thinking, design knowledge and design skills with an understanding of business, commerce, financial reality and stakeholder needs. Marketing is integral to the lecture programme and ways of combining design and marketing expertise are explained and encouraged (See also Design and Branding Research at Brunel University).

## TWO TRIBES AT WAR

Walker (1990) presented an analysis of designer and business manager attributes under selected headings which begged the question whether there was any prospect that the two cultures could effectively communicate and cooperate. A summary of his findings is shown in Table 1 below:

**Table 1: Summary of Walker (1990) “Two tribes at War”**

Characteristics	Managers	Designers
<b>Aim</b>	Long term	Short term
	Profits/returns	Product /Service quality
	Survival	Reform
	Growth	Prestige
	Organisational durability	Career building
<b>Form</b>	People	Things
	Systems	Environments
<b>Education</b>	Accountancy	Crafts
	Engineering	Art
	Verbal	Visual
	Numerical	Geometric
<b>Thinking styles</b>	Serialist	Holistic
	Linear	Lateral
	Analysis	Synthesis
	Problem-oriented	Solution-led
<b>Behaviour</b>	Pessimistic	Optimistic
	Adaptive	Innovative
<b>Culture</b>	Conformity	Diversity
	Cautious	Experimental

(Walker, 1990)

As recently as 2003 Von Stamm wrote of the continuing gap between marketers and designers when she wrote „the lack of understanding of the differences leads many managers to view design and creativity as something close to black art, something which cannot be managed and is therefore better left alone“. Marketers do not trust designers with the brand. Aldersley-Williams (2000) quoted in Balmer and Gray (2003) remarked that „designers talk strategy but like pretty shapes and colours.“ He failed to acknowledge that there is a growing body of

design management educators, researchers and strategists who are contributing valuable new thinking about using design as a strategic resource. Yet six years previously, Aldersley-Williams (1994) argued that it is imperative for designers, marketing and other managers to work together when creating corporate identity schemes. But Powell (2007) shows the problems remain current in identifying concerns by business owners and managers about “creative mavericks”.

James Dyson (1997), famous for his revolutionary design of vacuum cleaners and other innovative products was scathing about marketers, when he wrote „The modern marketing man has neither the time nor the inclination to learn about the creation and manufacture of things he is meant to be making more attractive to the consumer. He simply applies his all purpose skills to selling more of what already exists and the world gradually bores itself to death „,

One of the authors of this paper (Holt) during an 11-year period as Head of Design Management with British Airways, reports his experience of both frustration and cooperation working alongside marketing professionals. On the whole, it was felt that design was understood by most, and teamwork and cooperation prevailed, each party bringing value to the task in hand, resulting in a better product output and a corporate identity that was supported and underpinned by all concerned. Two case studies were commissioned by British Airways (BA) recording the chronology and processes undertaken by BA’s own Design Management team during the creation of a worldwide integrated design-led communications campaign in 1996 and the reconfiguration of the organisation’s corporate identity in 1997 (Holt, 2009). Alan Topalian (1999) published the identity case study in which he observes *„It was decided that such a project should be sanctioned and Design Management were asked to prepare the business case. Considerable time and effort was put into the preparation of this business case by Design Management in conjunction with Marketing, Finance and other departments within the group. The identity gained Board approval in August 1996”*.

Regarding the global communications campaign, Topalian (1996) observed *„Marketing condensed information generated into digestible form; Design Management helped to analyse feedback and advised how it could be translated into effective communications, and Market Research prepared presentations for the Directors”*. This served as evidence of the convergence between the design and marketing professionals in a major international



corporation. However, it has been Holt's experience that the general level of cooperation at BA is the exception rather than the rule, and there is often more tension than harmony between the two disciplines (Holt, 2009).

Whilst many design schools (including some who should know better) are still promulgating the idea that corporate identity is some imaginative logo, there are emergent strategic approaches to design-led branding and an increasing number of leading corporations learning to use design strategically for both internal and external branding (Pink, 2005). More than half a century ago Brech (1954) in his seminal management book „The Principles and Practice of Management” observed that „if the product is “bad” to the extent that it is not in keeping with what the customer wants or needs, then unless this is realised promptly, the lack of communication between present day marketing and the ultimate consumer can be fatal“. He was remarkably prophetic about the importance of satisfying the consumer. The core of any good brand is the perceived quality of the products and services of the organisation and they are integral to the complex web which constitutes corporate identity.

Young designers frequently ask the question,“if the product and service are good, why do we need marketers?” The principal reason for the question may be lack of real understanding of each other's role. Designers report that they feel undervalued, but they have to earn the respect by embracing a deep understanding of business. Sir George Cox in his 2004 recent report to the UK Government called for all UK design schools to incorporate a basic understanding of business into the design curriculum. He also went further by recommending much more emphasis on multidisciplinary education for creative enterprise (Cox, 2005).

Currently, the number of marketers far exceed designers in their leadership of brands, but marketers may be encouraged to consider that they are indebted to designers for the creative form and substance of all they represent. By integrating the design and branding strategy, all professionals can achieve a consistent brand experience for all stakeholders (Wind , 2009).

## **DESIGNERS AS THEIR OWN WORST ENEMIES**

The majority of design schools throughout the world still educate designers with limited knowledge of business. Worse still, they allow young designers to believe they are artists and that they have the ownership of creativity as their birthright. All advanced industrialised

nations educate more designers than industry needs, so that a high proportion of these young designers find it difficult or impossible to find work in their chosen field. This continues to frustrate designers who cannot understand why their best ideas get blocked (Reiple, 2004).

Young graduate designers who have no credibility in understanding business perpetuate the message that designers must be kept at a distance, used sparingly and only be invited to help when it is recognised that artistic input is essential. The entire field of managing creative designers and creative design teams, especially multidisciplinary teams, holds so much promise for design and marketing research. This problem is often perpetuated in consultancies and agencies where creatives (designers) are kept away from the clients, and where communication with the clients is confined to the organisation's seniors, marketing strategists, or „suits“ (client liaison teams). If designers are to be taken seriously they have to embrace marketing thinking from the outset (Trueman & Jobber, 1998).

In companies rather than consultancies, the picture is often better. The emergent Design Management team not only creates a bridge with the Marketing Department (and others) but also acts as catalysts for all the manifestations of the corporate identity as realised through a rich and varied mix of design disciplines. They identify, brief and pull together teams of design specialists, adding value in the process. Such specialists might include interior designers, graphic designers, signage specialists, website designers, designers of work-wear and uniforms. Whilst marketers are often involved with many or all of these outputs, they do not have the training, knowledge or understanding of design to achieve optimum results. Such understanding of business for designing corporate identity can be acquired through research, from reading strategic documents and business plans to interviewing key stakeholders (Wheeler, 2003).

## **EMERGENCE OF DESIGN STRATEGISTS**

Many progressive design schools are however embracing business, and, are in particular marketing very successfully. They are principally rooted in design management as a subject discipline, but since design management remains ill defined and rarely focuses on the strategic level of business, they usually have titles which do not include the word “management”. They reflect a growing view that „together design and innovation are in effect

the drivers of any successful business” (Cooper & Press, 2003). Examples of such design –led courses in the UK are:

- BA Design Management and Innovation, De Montfort University, Leicester
- MA / PG Dip Design Entrepreneurship, De Montfort University, Leicester
- BA Design Management for the Creative Industries, University of Salford
- MSc / PG Dip Design Management, University of Salford
- BA Design in Business, Birmingham City University
- PG Cert / PG Dip / MA Design Management, Birmingham City University
- MA Design Management, Northumbria University
- BA (Hons) Design and Technology Management, University of Leeds
- MA Design: Management and Policy, Lancaster University
- MA/PG Dip Design Management, London College of Communication
- MA Creative Enterprise, University College for the Creative Arts
- MBA Creative Industries Management, University College for the Creative Arts
- MA Design and Strategy, University College for the Creative Arts
- MA Innovation and Brand Management, University College for the Creative Arts

In the USA there are excellent strategic design-led courses, and in their report “Lessons from America” the UK Design Council particularly singled out the following courses for their use of design as a problem-solving tool in a multidisciplinary environment (UK Design Council, 2006):

- Integrated Product Development Course, Carnegie Mellon University (Vogel, Cagan & Mather, 1997)
- Dual degree programme (Master of Design: MD and Master of Business Administration: MBA), Illinois Institute of Technology (Alexis & Zia Hassan, 2007)
- Collaboration between the Massachusetts Institute of Technology: MIT and Rhode Island School of Design: RISD (Eppinger & Kressy, 2002)
- Stanford University D-School – a collaborative environment for graduates of all disciplines to use design thinking as a problem-solving tool.

## DESIGN-LED BRANDING

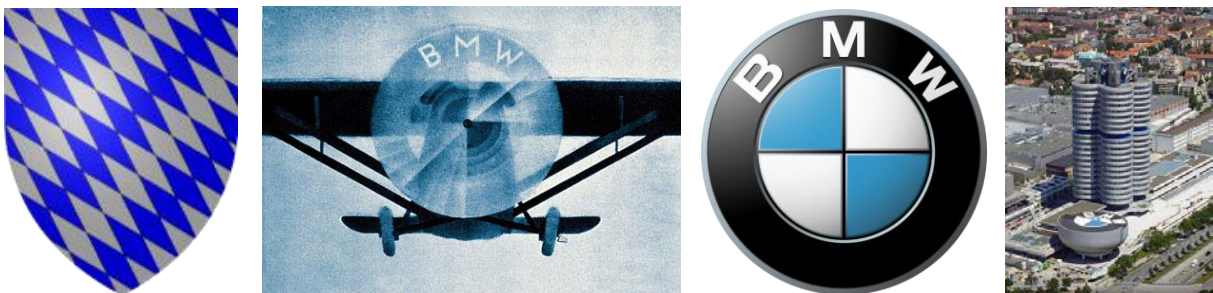
Having established that there is significant growth in design and branding strategies in education, industry and consultancy, what is different about a strategy developed by designers? The following vignette illustrates the unique value of design into the corporate brand.

### Case of BMW Motors

The brand identity of BMW or Bavarische Motoren Werke AG's (Bavarian Motor Works) roots are in its origin. The roundel logo, which has not been changed throughout the organisation's history, was derived from its predecessor company, Rapp Motorenwerke. The colour and check pattern represents the Arms of Bavaria (see Figure 5). Evidently, the design has been used to communicate BMW's distinctive identity and values (e.g. superior engine technologies) through all touchpoints. The cross in the centre of the badge is said to represent an aircraft propeller, derived from the early days when the organisation designed and built aero-engines. One of the best examples of design thinking is the organisation's headquarters building in Germany, which represents the inline-4 cylinder engine of a car (GPI Group, 2007).

It was the sporty sedan, BMW 700 that defined its identity and personality (see Figure 6). Up till now, BMW designs have followed these character traits (GPI Group, 2007). The focus on design was emphasised through the so-called "e-code" – a short name for Entwicklung (Evolution and Development in English), which is the main driver behind the E-series. Moreover, the attention to design detail is the key differentiator of BMW products.

**Figure 5: From left to right: Arms of Bavaria, Spinning Propeller, BMW Roundel and the Corporate Headquarters Building**



**Figure 6: The designs of BMW 700 and other consumer touchpoints**



**DESIGN AND BRANDING RESEARCH AT BRUNEL UNIVERSITY**

Brunel University has been conducting courses and research in the field of design, innovation and branding strategy since 1993. Consequently, there is a growing research output generating new thinking about both the methodologies and models of building design and branding strategies in a wide range of fields. Examples of completed and current research may be found in Appendix B. It may be observed that many of the studies are topical and contemporary, and equally likely to be found in a marketing environment in a business school.

A contextual evaluation of this research, using a grounded theory approach, reveals that there is a convergence of design and marketing thinking reflecting a growing understanding of cultural factors and driven by economic imperatives such as increased competition, growing virtual worlds and greater consumer demands. It thus offers the promise of “two tribes at peace” and the convergence may be expressed as shown in table 2.

**Table 2: Adaptation of Walker’s „Two tribes at War” 1990**

Characteristics	Managers	Designers	Converging 2008
<b>Aim</b>	Long term	Short term	Next generation of products and service -intense competition life cycles
	Profits/returns	Product/Service quality	Profitable products and services with design as added value
	Survival	Reform	Managed evolution- incremental innovation
	Growth	Prestige	Growth through impressive innovation - linked to organisational leadership
	Organisational durability	Career building	Encouraging creativity at all levels -embracing creativity as core business need
<b>Form</b>	People	Things	Products and services that satisfy people - trend to

			user-centred approach
	Systems	Environments	Creativity founded on systems thinking
<b>Education</b>	Accountancy	Crafts	Skills for added value- respect for other professionals
	Engineering	Art	Digital convergence- hybrid professionals
	Verbal	Visual	Powerfully communicated brands integrating narrative and environment
	Numerical	Geometric	Exploratory approach – addressing complexity issues
<b>Thinking styles</b>	Serialist	Holistic	Growing holistic approaches to support strategic thinking
	Linear	Lateral	Lateral thinking encouraged – acceptable for all to be creative
	Analysis	Synthesis	Combined for strength in multi-disciplinary environments
	Problem-oriented	Solution-led	Creative solution sought for well-defined problems – better briefs
<b>Behaviour</b>	Pessimistic	Optimistic	Realism about context - less “idealism”
	Adaptive	Innovative	Models of creativity and risk emerging
<b>Culture</b>	Conformity	Diversity	Needs leadership to find balance and creative team management models
	Cautious	Experimental	Evidence of innovation rewards –at the heart of business strategy

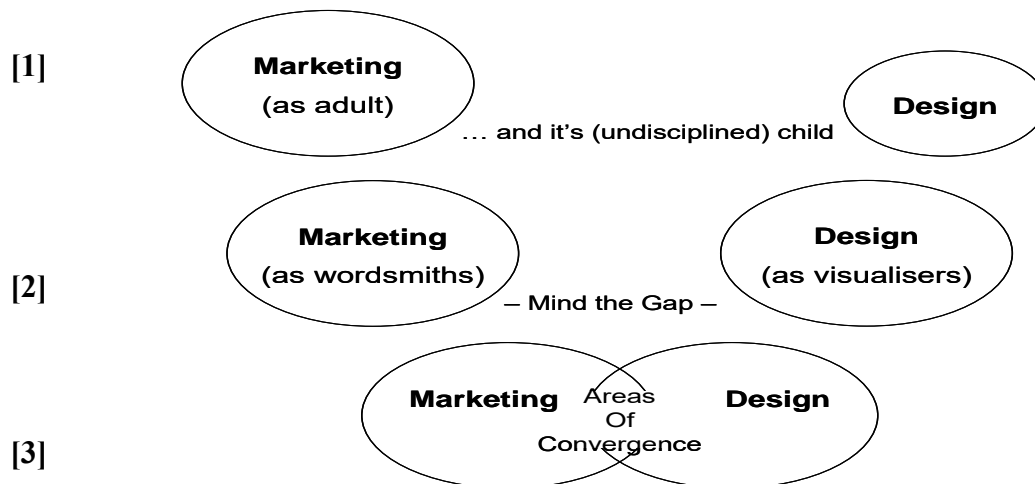
(Adapted from Walker 1990 and convergence added)

## **OPPORTUNITY FOR NEW PARADIGM BASED ON CONVERGENCE OF DESIGN/MARKETING THINKING**

The convergence of cultures represents an opportunity for marketing and design to build collaborative models for the development of products, services and brands. Emerging from the above Table, the education of marketers emphasising words and designers emphasising visuals, the real vision for powerfully communicated corporate brands lies in the integration and potential creative synergy. Both marketers and designers are converging in their agreement on the value of systems and holistic thinking, and investing much intellectual effort into defining problems and generating creative alternatives. Strategic designers are no longer strange lonely artists detached from the world around them, but “people people”, confident in their roles in multidisciplinary teams. An example of research demonstrating such benefits

may be found in Ivins and Holland (1999). Three views of the current relations between marketing and design are offered in Figure 7.

**Figure 7: Evolution of Design and Marketing Relationship**



Adapted from (Ivins and Holland, 1999)

## **POSSIBILITY OF INTEGRATION**

The convergence is revealed as a natural phenomenon (Figure 7), but important questions arise about how to proceed. Questions about such issues as cultures and semantics need attention, and in building the models further questions about added value to corporate brands, storytelling, narrative and leadership emerge. The complex challenges of designing a corporate identity and building a corporate brand through designing a great customer experience need high quality multifaceted thinking.

## **CONCLUSION**

The paper makes a case for the integration for successful development of corporate identity and brands, and identifies challenging issues to achieve a greater understanding and ultimate convergence of the marketing and design disciplines. It is important to begin with a thorough investigation of practices and educational provision. This is essential in relation to education, since a relatively small number of progressive design schools are ready to engage in developing a new paradigm. An agenda of issues to be addressed in order to further explore

the potential benefits of cooperation needs to be drawn up and the authors offer the following framework for future study.

- A comparative study of the practices and benefits of marketing-led and design-led corporate identity and corporate branding.
- Investigation into the characteristics and cultures of design and marketing environments.
- Evaluation of the processes and models used by marketing and design for strategic branding.
- A study of the semantics of the two disciplines: key terminology used by both disciplines.
- Evaluation of cross-disciplinary teamwork to develop new models to support creative teams.
- Development of more multidisciplinary courses – particularly at postgraduate level- which integrate design and marketing (and other functional areas) thinking.

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## APPENDIX A

### *Books for marketing education which have little or no reference to strategic design*

Book title	Author	Publisher	Year
The Marketing Manual	Baker, M.J.	The Chartered Institute of Marketing	1998
<b>BRIEF REVIEW</b>			
Design was neither referred to in the strategic marketing planning nor regarded as a problem-solving tool. Moreover, it was not included in factors influencing the competitiveness of a firm.			
Principles of Marketing	Kotler, P.	Prentice Hall European	1999
<b>BRIEF REVIEW</b>			
The term, <i>Design</i> , was defined closely to <i>Styling</i> . Although many activities were described using the word, design, e.g. message design, channel design, etc. The strategic use of design was hardly discussed. The main contributions of design are restricted to product development only.			
The definitive guide to marketing planning	Hatton, A.	Financial Times & Prentice Hall	2000
<b>BRIEF REVIEW</b>			
Design was not included in either strategic or operational level. This might be because it was assumed that purchasing decision was made based on “value for money” only. Even though the importance of physical evidence was realised, the experience design was not discussed.			
Essentials of Marketing	Brassington, F. & Pettitt, S.	Financial Times & Prentice Hall	2005
<b>BRIEF REVIEW</b>			
In this case, design was associated with product design and communication (e.g. message design) only. As a result, the full potential of design and/or strategic design was not explored.			
Principles of Marketing	Kurtz, D.L. & Boone, L.E.	Thomson South-Western	2006
<b>BRIEF REVIEW</b>			
The term, <i>Design</i> , did not appear in either the Glossary or Subject Index. Strategic planning relied on analytical analyses only, e.g. SWOT Analysis and Porter’s Five Forces Model. Strategic design was not considered as one of the key product differentiators or brand equity.			
Principles and Practices of Marketing	Jobber, D.	McGraw-Hill	2007
<b>BRIEF REVIEW</b>			
Similar to previous text book, design was not mentioned in either the Glossary or Subject Index. Moreover, the use of creative design was described in the styling context only.			

*Books included on business schools reading list which explain strategic design*

<b>Book title</b>	<b>Author</b>	<b>Publisher</b>	<b>Year</b>
Corporate Identity	Cooper, R. & Press, M.	Lund Humphries	1994
<b>BRIEF REVIEW</b>			
The working relationship of design and marketing was clearly demonstrated. Moreover, the role of design and its contributions in an organisation were presented. Interesting viewpoints came from Kotler and Rath (1984), as they discussed the strategic use of design.			
The Experience Economy: Work is theatre & business a stage	Pine II, J. & Gilmore, J.H.	Harvard Business School Press	1999
<b>BRIEF REVIEW</b>			
Their ideas were ahead of their time. While many researchers still view each factor as a separate entity, these authors suggested that the synergic and memorable experience is the key to survive and compete. Although the strategic use of design was implicitly embraced, the key elements, such as sensory engagement and creativity were demonstrated throughout.			
Product Strategy and Management	Baker, M. & Hart, S.	Financial Times & Prentice Hall	2007
<b>BRIEF REVIEW</b>			
Although the contents were presented in the business and management fashion, the strategic use of design was clearly demonstrated. Nevertheless, the strategic design was limited to the product strategy and new product development only. Hence, other areas were not explored.			

## **APPENDIX B**

### ***Examples from Brunel University***

#### ***Masters by design research:***

- *Designing a culture for innovation [internal branding].*
- *Corporate branding alliances*
- *Creativity and organisational success*
- *Managing brand loyalty in the luxury goods industry*
- *Corporate social responsibility and brands*
- *A systematic and conceptual framework for brand risk analysis*
- *Mass- customisation and branding for the fashion industry*
- *Futures forecasting tools for design and branding*
- *Design and branding strategy for the toy industry*
- *City [and tourism] design and branding*
- *Brand verbal identity: the impact of taglines on consumers*
- *Total sensory branding – including design of spiritual customer experiences*
- *New design and branding models for many industries, example furniture, fashion accessories, cars, music, hotels, IT and electronic products*
- *Spiritual Branding Strategy*

#### ***PhD completed studies which have implications for strategic marketing:***

- Cross Functional Collaboration for Development of Electronic Products
- Futures Forecasting for new Product Concepts
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#### ***PhD studies in continuation:***

- City Branding through Mega Sporting Events
- Relationship of Design and Brand Attributes for Luxury Cars
- Branding Development for Teenage Fashion

# **BRAND LOYALTY OF CEREAL PRODUCTS**

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**Key terms:**   brand loyalty, marketing of cereal, purchasing behaviour, branding

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# BRAND LOYALTY OF CEREAL PRODUCTS

## ABSTRACT

This paper reports on research that focussed on brand loyalty in cereal brands. The South African breakfast market consists of several brand products for cereal products, and some of the products are produced locally while others are imported. Cereal products are classified under fast-moving consumer goods (FMCG).

The research had three objectives, namely to determine the importance of brand loyalty influences in cereal brands, to calculate the reliability of the data and to ensure that the measuring instrument used is also valid to measure brand loyalty in cereal brands. A literature review focused on brand loyalty influences, while the empirical research used data collected via an email distributed questionnaire. A total of 58 questionnaires were received from the sample of 170 (response rate 34%) that could be used in the analysis.

The results showed that *Brand performance* is the most important influence in cereals when loyalty comes to mind. *Culture* closely follows while *Brand relevance* also plays an important role in loyalty towards a cereal brand. According to the average mean values calculated above, the majority of the respondents agree with the statement that *Customer satisfaction* and *Brand trust* are the least important brand loyalty influences. Regarding the reliability, the brand loyalty influences of *Involvement*, *Perceived value* and *Brand performance* could not be regarded as reliable. Regarding the validity, a number of questions were not suitable to measure brand loyalty in cereals, and could be omitted from the brand loyalty questionnaire. In general, however, it could be concluded that the brand loyalty model by Moola (2010) could be employed with some adjustments to measure brand loyalty in cereal brands.

**Keywords:** brand loyalty, marketing of cereal, purchasing behaviour, branding, FMCG

## INTRODUCTION

A “cereal” is a family breakfast food, designed to be a convenient and quick nutritious meal that requires minimum preparation time. It can also be taken as an in-between snack or for lunch or dinner. Its versatile nature provides options to enjoy it hot or cold, usually mixed with milk, water or yogurt. (It can even be eaten as it is packaged – dry.) Cereals are produced from a wide range of grains such as maize (corn), wheat, rice, oats and barley. Product differentiation plays an important part in the marketing strategies of cereals. Typical strategies that are employed by the cereal market are:

- **Flavouring:** In addition to the plain cereal, a variety of flavours are used to create a differentiated product offering. *Kellogg’s Rice Crispies* are flavoured to create *Kellogg’s Strawberry Pops*, *Kellogg’s Coco Pops* and *Kellogg’s Choc-Caramel Pops*.
- **Sugar coating:** The base cereal is sugar coated and marketed as competitor to its original cereal. *Kellogg’s Corn Flakes* is coated to be marketed as a competitor (*Kellogg’s Frosties*).
- **Product form:** Cereals are presented in various product forms such as porridge, flakes, pops and compressed bars. It is even presented as a ready-mix porridge meal.

Cereals are nutritious breakfasts and provide the energy needed to perform at full potential, and the common ingredients for different brands are iron, vitamins, carbohydrates, magnesium and protein.

The majority of the cereal products are easy to serve. The following brands are common in South Africa and have been listed according to its popularity with consumers: Kellogg’s Corn Flakes, Kellogg’s Special K, Jungle Oats, Cheerios and Weet Bix. Kellogg’s Corn Flakes are made from maize and provide guidelines daily amounts (GDA) for each of the nutrients. Kellogg’s Corn Flakes is recommended for both younger children and adults. Kellogg’s Special K is made from light crisp flakes of rice and wheat with succulent red berries and it is a recommended dietary

allowance for persons 10 years of age and older. The Kellogg's Special K cereal is for people intending to lose weight and those wanting to increase their fibre intake. Weet Bix cereal is made from whole grain and can be enjoyed by both young and old. Jungle Oats is made from oats and is recommended for children and older persons.

Several cereal products are nationally available in the South African market. Some companies promote their products for the health benefits that arise from eating oat-based and high-fibre cereals. The great variety of prepared cereals displayed in our grocery stores indicates the favour in which they are held. Through the ingenuity of the millers, barley, corn, oats, rice, rye, and wheat are prepared in many different forms.

In South Africa, breakfast cereals are marketed to all ages. For adults, companies such as Kellogg's, Quaker Oats, Post, Nestlé and General Mills promote their products for the health benefits gained from eating oat-based and high-fibre cereals. Manufacturers often fortify breakfast cereals with various vitamins. Cereals with relatively high sugar content are also produced. The breakfast cereal industry is highly profitable, with gross profit margins around 40-45%, 90% penetration in some markets, and steady and continued growth throughout its history (Supromma, 2010).

This study intends to determine the factors that influence the consumers to constantly use a particular brand, and prefer it above other cereal products. As required by the human body, and also encouraged by health practitioners, breakfast is an important meal for a healthy body. People use different cereal products for their breakfast meals.

## **PROBLEM STATEMENT**

The focus of the study is to measure the brand loyalty of the consumers in the cereal market. This research also reveals the attitudes and beliefs of people about the brand they prefer as well as the cereal product they do not prefer. It will also assist in finding out the contributing factors in their choices as well as the decisive factors in this regard. The research attempts to get the answer as to why consumers become loyal to certain cereal brands, and whether they are influenced by the

status, price or advertising. The composite measures of brand loyalty involve an integration of behavioural and attitudinal approaches. Most of these measures are of more recent origin, which partially explains why there are relatively few of these described in the published literature (Jacoby & Chestnut, 1978:52).

## **OBJECTIVES OF THE STUDY**

The primary objective of this study was to measure the brand loyalty of cereal products.

This was achieved by the following secondary objectives, namely to:

1. measure the importance of the brand loyalty influences in cereal brands;
2. determine the reliability of each of the influences in brand loyalty to cereal brands; and
3. validate the questionnaire, as suggested by Moola (2010) in his model, as a tool to measure the brand loyalty of cereals.

## **THE NATURE OF CEREAL PRODUCTS IN SOUTH AFRICA**

The South African market consists of several brand products for cereal products, and some of the products are produced locally while others are imported. Cereal products are classified under fast-moving consumer goods (FMCG). The majority of the cereal products are easy to serve. The following brands are common and popular in South Africa: Kellogg's Corn Flakes, Kellogg's Special K, Bokomo Weet Bix, Bokomo Corn Flakes, Jungle Oats, and Nestlé Cheerios. Kellogg's Corn Flakes are made from maize and provide guidelines daily amounts (GDA) for each of the nutrients. Table 1 shows different ingredients and nutrition information for different cereal products:

Breakfast cereals are marketed to all ages. For adults, companies such as Kellogg's, Quaker Oats, Post, Nestlé, and General Mills promote their products for the health benefits gained from eating oat-based and high-fibre cereals (Supromma, 2010).

## **BRAND LOYALTY**

Brand loyalty in consumer preferences can be a significant source of incumbent advantage. Brand loyalty is a consumer's preference to buy a particular brand in a product category, and occurs because consumers perceive that the brand offers the right product features, images, or level of quality at the right price. This perception becomes the foundation for a new buying habit. Basically, consumers will initially make a trial purchase of the brand and, after satisfaction, tend to form habits and continue purchasing the same brand because the product is safe and familiar (Giddens & Hofmann, 2002:1).

A brand goes beyond the tangible elements of a product or service to include the special bond the marketers establish in the minds and hearts of the customers. This leads to a unique kind of loyalty, and it is referred to as brand loyalty. Brand loyalty is enjoyed by such revered names as Hallmark cards, Panado, Coca-Cola, and Tide laundry detergent, among others (Czerniawski & Maloney, 1999:2).

Brands are more than just names and symbols. It is a key element in the company's relationships with consumers. Brands represent consumers' perceptions and feelings about a product and its performance – everything that the product or service means to consumers. A powerful brand has high brand equity. Brand equity is the differential effect that knowing the brand name has on customer response to the product and its marketing. It is a measure of the brand's ability to capture consumer preference and loyalty. A brand has positive brand equity when consumers react more favourably to it than to a generic or unbranded version of the same product. It has negative brand equity if consumers react less favourably than to an unbranded version (Kotler & Armstrong, 2010:260).

The measuring of brand loyalty and the influences regarded to be more important have been extensively researched by Moola (in Moola & Bisschoff, 2010:21) (see Figure 1 for the detailed influences on brand loyalty).

**FIGURE 1: CONCEPTUAL BRAND LOYALTY FRAMEWORK**



**Source:** Moola & Bisschoff (2010:21)

According to the study by Moola (in Moola and Bisschoff, 2010), the more important brand loyalty influences are regarded to be the following:

- **Customer satisfaction**

The product's past ability to satisfy consumer needs and its widespread distribution play an important role in consumption; however, constant advertising has been successful in reinforcing past positive associations between the brand and consumers (Molly, 2001:6). Customer satisfaction depends on the product's perceived performance relative to the buyer's expectations (Perreault & McCarthy, 2010:276).

- **Switching costs/risk aversion**

Risk is defined as the nature and amount of uncertainty or consequences experienced by the consumer in contemplating a particular purchase decision. Uncertainty is subjective and comes from identifying buying goals and matching these goals with product or brand offering. Consumers search for information to deal with uncertainty and improve the consequences of a purchase decision that is perceived to be risky. The success of an external search relies on the amount of information, and that of an internal search on the extent of prior experience with the product or brand (Park & Stoel, 2005:150).

- **Brand trust**

Brand trust is defined as the willingness of the average consumer to rely on the ability of the brand to perform its stated function. Brand trust is simply the trust a consumer has in that specific brand. Brand trust leads to brand loyalty or brand commitment because trust creates exchanges in relationships that are highly valued. The concept of brand commitment is related to the loyalty of consumers towards a particular brand in a product class and is gaining increasing weight in consumer behaviour (Ha, 2004:326).

- **Repeat purchase**

Repeat purchase behaviour for a high-involvement product is the indicator of brand loyalty. If, after the purchase and use of the product, the customer is satisfied, he is happy and goes in for repeat purchases or recommends the same to his friends and acquaintances. If, however, the customer is dissatisfied, he discontinues further purchase of the product and builds a negative attitude towards it, which may be harmful to the company (Khan, 2006:177). Repeat purchase is subdivided into purchase patterns and

purchase frequency. According to Jacoby and Chestnut (1978:81), the term loyalty connotes a condition possessing some temporal duration, and it is therefore necessary to have the purchase act occur in at least two different points in time.

- **Involvement**

Self-concept, needs and values are the three personal factors that influence the extent of consumer involvement in a product or service. The more product image, the value symbolism inherent in it and the needs it serves fit together with the consumer self-image, values and needs, the more likely the consumer is to feel involved in it (Babu, 2001:7). Product involvement and brand loyalty are two important concepts believed to explain a significant proportion of consumer purchase choices. Involvement refers to the subjective importance of the purchase and is a function of financial and functional importance, perceived risk, emotional value and sign value (Babu, 2001:7-8). Alternatively, many decisions can be based on habit, with habit formation being a prerequisite of brand loyalty. Babu continues to argue that depending on the degree of involvement and whether a habit has been formed or not, four types of buying decisions emerge: complex decisions, brand loyalty, limited decisions, and inertia.

- **Perceived value**

Li and Green (2010:3) define customer perceived value as “the consumer’s overall assessment of the utility of a product based on perceptions of what is received and what is given”. Two essential conceptions are established with customer perceived value (CPV). Firstly, CPV is a result from the consumers’ pre-purchase perception (expectation), evaluation during the transaction (expectation versus received), and post-purchase (after-use) assessment (expectation versus received). Secondly, CPV involves a divergence between the benefits received and sacrifices given. The benefits include customers’ desired value, for example, quality. Sacrifices, on the other hand, include monetary (price) and non-monetary (time, effort) considerations.



- **Commitment**

According to Quester *et al.* (2001:2), the general convention in the literature is that one's involvement in a product class is directly related to one's commitment (or loyalty) to a brand within that product class. It is argued that the more focal a product class is to an individual's ego or sense of identity, the stronger the psychological attachment to a particular brand within that product class will be. Conversely, the more peripheral the product class is to the individual's ego, the lower the attachment to the brand will be. A brand loyal or a committed customer is emotionally attached to the brand. He believes in the firm and trusts the brand. Brand loyalty increases if the performance of the brand is more than the expected performance. In the case of committed customers, they believe and have faith in line extension and brand extension of the firm. Committed customers also promote the product by positive word-of-mouth (Khan, 2006:170). Three different types of commitment are distinguished (Bloemer, Odekerken-Schröder & Martens, 2002:6):

- *Affective commitment*, which can be defined as “a party's desire to continue a relationship because of the enjoyment of the relationship for its own sake, apart from the instrumental worth and because they experience a sense of loyalty and belongingness.”
- *Calculative commitment*, which can be defined as “the degree to which channel members experience the need to maintain a relationship, given the significant perceived termination of switching costs associated with leaving.”
- *Normative commitment*, which is reflected in “the (moral) obligation to stay in a relationship.”

- **Relationship proneness**

Bloemer and Odekerken-Schröder (2002:69) define consumer relationship proneness as a consumer's relatively stable and conscious tendency to engage in relationships with retailers of a particular product category. Consumer relationship proneness refers to the stable tendency of a consumer to engage in relationships with retailers and can therefore be considered as a part of a consumer's personality. The concept of proneness is focused

on the tendency to *engage* in relationships as opposed to the tendency to maintain or enhance relationships.

- **Brand affect**

Consumers tend to remember best the last experience: therefore, one positive experience may be sufficient to alter perceptions of more than one preceding negative experience, and vice versa. This suggests the important influence that experience can have on customer satisfaction and, the more satisfied the customer, the more durable the relationship will be. Relationship depends on a consumer's experience. Similarly, brand trust can be related to experience (Ha, 2004:330).

- **Brand relevance**

Brand relevance is the alignment of a brand, its brand attributes, brand identity and brand personality with the primary needs and wants of the target audience. Brand involves more than just getting a better advertising agency, a more catchy creative or a better marketing budget. A commitment to brand requires a philosophical commitment to putting the customer – his/her evolving needs, connection to the company, reason for believing in what the brand stands for – at the centre of all company actions and its culture. Brand provides not only strong protection against competition, but also insulation against conditions. It is a key tool to gauge customer circumstances and recalibrate to remain relevant (Dunn, 2001:1). A methodological breakdown of brand relevance includes:

- *Content* is at the centre of developing and expressing quality and purpose of brands.
- *Interaction*: Developing a message of value that clients and customers can identify with and share.
- *Identity* to create a clear message that clients are able to place personal value to.
- *Practical*: Focusing on a solution-based branding message.

- **Brand performance**

Brand performance measurement is of paramount importance for any marketing organisation. Various methods and models have been developed to assess performance of a brand most accurately and objectively. Each of the different methods and models takes a

particular perspective based on which the performance is measured, broadly either financial or marketing perspectives. Usually, a brand's performance is measured and denominated in value terms on the occasion of sale of a brand or while reporting it in the balance sheet as an intangible asset. It is seen that performance of a brand is measured only on the basis of returns, royalty, earnings, and cashflows, on one hand, or on the basis of awareness, identity/image, retention/advocacy, and perceived quality, on the other (Trivedi *et al.*, 2010:2).

- **Culture**

Culture is that complex whole that includes knowledge, belief, art, law, morals, customs and any other capabilities and habits acquired by humans as members of society. Culture influences the pattern of living, consumption, and decision-making by individuals. Culture is acquired. It can be acquired from the family, from the region or from all that have been around us while we were growing up and learning the ways of the world. Culture forms a boundary within which an individual thinks and acts (Babu, 2001:45). Culture is used to describe what people within a group have in common. The value and the norms of the surrounding culture, family and reference groups are influential factors. The three major aspects of culture that have important effects on consumer behaviour are:

- Regional;
- Ethnic; and
- Religious differences.

## **RESEARCH METHODOLOGY**

A random sample was drawn from a convenience population known to the researcher. Permission was obtained from the prospective respondents via email and they were requested to indicate their willingness to participate in the study. The respondents were assured that the information received would be treated as confidential and that the results will be used for research purposes only. The population is based in Northern Gauteng. From the population, a total of 170 individuals indicated their willingness to participate in the study. This 170 formed the sample and they all received questionnaires via email. A total of 58 completed questionnaires were received

back. This represents a response rate of 34%. Seven of the questionnaires that were received, could not be used due to incomplete completion thereof. This means that 65 questionnaires were returned, but only 58 were used for analysis.

The brand loyalty measuring instrument designed by Moola (Moola & Bisschoff, 2010:21) was utilised, and consists of questionnaires measuring the loyalty influences of participants towards cereal products. The instrument comprises a five-point Likert-scale as measure of attitudes in behavioural studies (Marczyk 2005:145; Diamantopoulos & Schlegelmilch 2005:29).

Quantitative analysis was conducted to measure the brand loyalty of cereal products. The descriptive statistics (mean values, frequency distributions and standard deviations) were calculated for each criterion, as well as for each of the brand loyalty influences (secondary objective 1). Reliability of the data was determined by employing Cronbach's alpha coefficients (secondary objective 2) (Du Plessis, 2010). The validity of the questionnaire for cereals (secondary objective 3) was determined by employing exploratory factor analysis to determine if each brand loyalty influence is measured by the specific questions suggested by the model. Therefore, to determine if the five questions that measure *Customer satisfaction* as brand loyalty influence really do measure it when applied to cereal brand loyalty. Although factor analysis requires at least five times the number of responses over questions (Du Plessis, 2010), the total responses of 58 never poses any statistical problems. This is because each individual brand loyalty influence was subjected to the exploratory factor analysis, and as such, only a maximum of five questions at any time were analysed (Du Plessis, 2010).

## **RESULTS**

### **Demographic profile**

The profile of the respondents includes age, gender, province, income and ethnicity. This information is summarised in Table 1 below.

**TABLE 1: DEMOGRAPHIC PROFILE OF RESPONDENTS**

<b>GENDER</b>	<b>PERCENTAGE</b>
Male	60%
Female	40%
<b>AGE</b>	
31-40	62%
41-50	21%
20-30	17%
<b>ETHNICITY</b>	
Black	84%
White	9%
Asian	2%
Coloured	5%
<b>INCOME</b>	
R250k - R500k	44%
R100k - R250k	34%
R500 - R1 million	13%
Less than R100k	9%

Table 1 contains the results in terms of males and females who completed the survey questionnaires. The majority of respondents were female at 60%, and males at 40%. In terms of the age of respondents who completed the survey questionnaires, approximately 62% of the respondents fall into the category 31 to 40 years of age, followed by 41 to 50 years at 21%, and lastly 20 to 30 years at 17%. Regarding ethnicity, a total of 84% of the respondents are black people, followed by white people at nine percent, and the remaining percentage of five and two are coloured people and Asians, respectively. One statistic that is noticeable from the response is that the majority of respondents are in the middle income level between R250k and R500k at 44%, followed by incomes between R100k and R250k at 34%, R500 to R1 million is at 13%, and lastly, less than R100k is at 9%.

## **Brand loyalty measures**

The twelve brand loyalty measuring criteria are analysed in Table 2 (Take note of Appendix A where the individual criteria are explained). Since a 7-point Likert scale is used, the mean values reflect a score out of a possible 7, which signifies the level of agreement to the specific measuring criterion.

The summary of the responses recorded are shown in Appendix B.

## **Mean values**

The research calculated the mean value for each brand loyalty model as well as the standard deviation. The mean values in Table 3 are combined values of all the individual criteria, and therefore show the mean value of each brand loyalty attribute. The table has been sorted in descending order to ease the identification of the more important brand loyalty attributes of cereal products. According to Bisschoff and Hough (in Haasbroek & Bisschoff, 2010), interpretation of the importance of attributes can be done by classifying the mean scores as follows:

- 75% (or 5.25 on a 7-point Likert scale) – Very important;
- Between 60 and 75% (or between 4.20 and 5.25 on a 7-point Likert scale) – Important; and
- Below 60% (or below 4.20 on a 7-point Likert scale) – of lesser importance

In addition, the scores themselves are also open for interpretation. For example, although the score of 5.25 is excellent, a higher value portrays a higher order of importance. High standard deviation values indicate that the respondents differed widely from one another in ranking the importance of the specific measuring criterion.

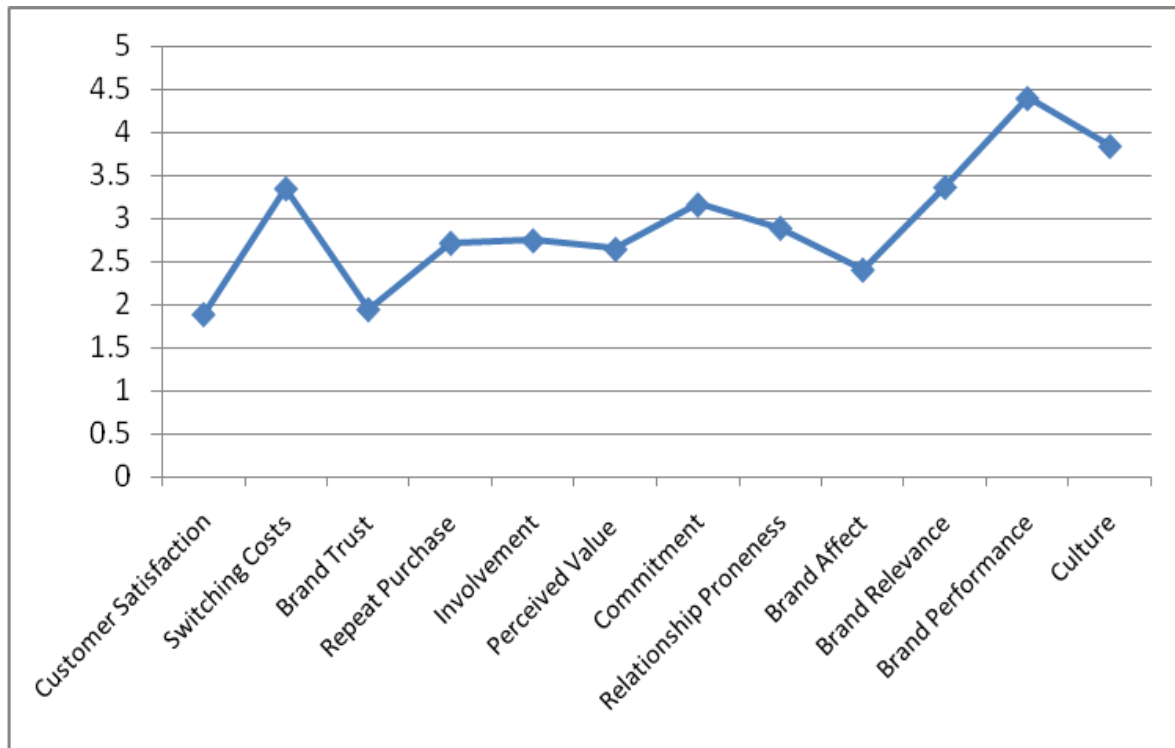
**TABLE 2: SUMMARIES OF MEAN AND STANDARD DEVIATION AVERAGES**

Descriptive statistics						
Code		N	Minimum	Maximum	Mean	Std. deviation
CUL	Brand performance	57	1.75	7.00	4.4006	1.47250
RPS	Culture	58	1.00	7.00	3.8448	1.36970
BPF	Brand relevance	57	1.00	7.00	3.3684	1.57980
SCR	Switching costs	58	1.40	7.00	3.3517	1.31939
COM	Commitment	58	1.00	6.00	3.1655	1.25608
BAF	Relationship proneness	58	1.00	6.00	2.8937	1.30103
INV	Involvement	58	1.00	6.00	2.7471	1.01511
RPR	Repeat purchase	58	1.00	6.50	2.7198	1.07511
PVL	Perceived value	58	1.00	5.00	2.6494	.98808
BRV	Brand affect	57	1.00	5.75	2.4079	.96897
BTS	Brand trust	58	1.00	4.50	1.9483	.73413
CUS	Customer satisfaction	58	1.00	4.25	1.8908	.64610

From the table it is clear that *Brand performance* ( $\bar{x}=4.40$ ) is the most important influence in cereals when loyalty comes to mind. *Culture* ( $\bar{x}=3.84$ ) closely follows while *Brand relevance* ( $\bar{x}=3.37$ ) also plays an important role in loyalty towards a cereal brand. According to the average mean values calculated above, the majority of the respondents agree with the statement regarding *Customer satisfaction* ( $\bar{x}=1.89$ ) and *Brand trust* ( $\bar{x}=1.94$ ) are the least important brand loyalty influences.

The mean values of each influence are shown in Figure 2.

**FIGURE 2: BRAND LOYALTY INFLUENCES**



### Reliability of the data

The reliability of the data was tested by using the Cronbach alpha correlation coefficient (Field, 2007:640). The minimum reliability coefficient is set at  $\alpha \geq 0.70$  (Boshoff & Hoole, 1998:77). However, Kline (1999) in Field (2007:668) reasons that with attitudinal or behavioural constructs, an Alpha coefficient of 0.58 is sufficient and that such data is suitable to use for subsequent analytical scrutiny.

The validation of the questions appears in the table below. Exploratory factor analysis in conjunction with Cronbach alpha was used to ensure that all questions in the questionnaire should be incorporated in the measuring of brand loyalty in cereal. The first column referring to Cronbach alpha is when all the questions are used. If the reliability is low, the individual low reliability coefficients of the questions are considered and case-wise deleted. The improved reliability coefficients are shown in the last column where the target reliability coefficient is 0.70. However, as this is exploratory research, the lower value, as suggested above by Kline of 0.58, is



also regarded to be acceptable. Take note that the question numbers in the table below correspond with the question numbers in the questionnaire (see Appendix A). Questions referred to in brackets in the table are those that were deleted to obtain better reliability. For example, with regard to customer satisfaction the reliability coefficient is 0.483 (unsatisfactory). As a result, questions 4 and 5 have been deleted. The reliability then increases to an acceptable 0.650 (using Kline’s reduced reliability level). The other influences are interpreted in a similar manner in the table.

**TABLE 3: RELIABILITY OF QUESTIONS PER INFLUENCE**

<b>INFLUENCE</b>	<b>CRONBACH ALPHA (ALL QUESTIONS)</b>	<b>QUESTIONS VALIDATED</b>	<b>CRONBACH ALPHA (AFTER DISCARDING QUESTIONS)</b>
Customer satisfaction	0.483	Q1, Q2, Q3, (Q4), (Q5)	<b>0.650</b>
Switching costs	<b>0.752</b>	Q6, Q7, Q8, Q9	<b>0.752</b>
Brand trust	<b>0.687</b>	Q11, Q12, Q13, Q14	<b>0.687</b>
Repeat purchase	<b>0.735</b>	Q15, Q16, Q17, Q18	<b>0.735</b>
Involvement	0.303	Q19, Q20, Q21, (Q22)	0.516
Perceived value	0.174	Q23, Q24, (Q25), Q26	0.522
Commitment	<b>0.785</b>	Q27, Q28, Q29, Q30, Q31	<b>0.785</b>
Relationship proneness	0.496	Q32, (Q33), (Q34), (Q35), Q36	<b>0.738</b>
Brand affect	<b>0.753</b>	Q37, Q38, Q39	<b>0.753</b>
Brand relevance	<b>0.787</b>	Q40, Q41, Q42, Q43	<b>0.787</b>
Brand performance	0.431	(Q44), Q45, Q46	0.562
Culture	<b>0.751</b>	Q47, Q48, Q49, Q50	<b>0.751</b>

**Note:** The deleted questions are shown in brackets

From the table it is clear that the influences *Switching cost*, *Brand trust*, *Repeat purchase*, *Commitment*, *Brand effect*, *Brand relevance* and *Culture* are reliable as is and these influences have been measured by all the questions. There is no alteration required on these sections of the questionnaire.

Regarding individual questions, it is evident that the removal of Q22, Q25 and Q44 showed a large improvement in reliability in the influences *Involvement* and *Perceived value*, respectively. These questions negatively influence the brand loyalty influences and should be removed from the questionnaire when applied to cereal products.

*Involvement*, *Perceived value* and *Brand performance* are all slightly below the 0.58 lower limit of reliability set in this study. Although Cortina (1993) in Field (2007:668) has set a much lower limit for exploratory research (well below 0.50), a warning is heeded that the results of repeat studies may be different than the results obtained here. Cortina did, however, point out that that low Alpha coefficients simply imply that the same results are less likely to present itself in similar studies if repeated, and that it is important to note that the results obtained in this study remain relevant and important to this application setting.

The brand loyalty influences *Customer satisfaction* and *Relationship proneness* show multiple failure of questions to measure the influences reliably, and should be further researched to determine if these failures are limited to this study only, limited to breakfast cereal as a FMCG specifically, or a general failure with regard to the developed FMCG questionnaire by Moola (2010).

## **SUMMARY**

This study focused on the brand loyalty of cereal products, and the role played by branding in the success of the product. Factors that are important in the success of cereal product sales were explored. The current market for cereal products is very competitive with new products being

introduced in the market, with some brands' brand prices remaining constant or even decreasing to be able to be competitive.

The customer base prefers to purchase known brands instead of new and unknown brands, and it is therefore important for the market to focus on the factors that will contribute to the success of their business and brand.

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## APPENDIX A: CRITERIA EXPLAINED

No	Code	Question
1	CUS01	I am very satisfied with the listed FMCG brands I purchase
2	CUS02	Distinctive product attributes in FMCG keep me brand loyal
3	CUS03	My loyalty towards a particular FMCG brand increases when I am satisfied with that brand
4	CUS04	I do not repeat a purchase if I am dissatisfied about a particular FMCG brand
5	CUS05	I attain pleasure from the FMCG brands I am loyal towards
6	SCR01	I do not switch FMCG brands because of the high cost implications
7	SCR02	I do not switch FMCG brands because of the effort required to reach a level of comfort
8	SCR03	I avoid switching FMCG brands due to the risks involved
9	SCR04	I switch FMCG brands according to the prevailing economic conditions
10	SCR05	I prefer not to switch FMCG brands as I stand to lose out on the benefits from loyalty programmes
11	BTS01	I trust the FMCG brands I am loyal towards
12	BTS02	I have confidence in the FMCG that I am loyal to
13	BTS03	The FMCG brands I purchase has consistently high quality
14	BTS04	The reputation of an FMCG brand is a key factor in me maintaining brand loyalty
15	RPR01	I prefer to maintain a long-term relationship with an FMCG brand
16	RPR02	I maintain a relationship with an FMCG brand in keeping with my personality
17	RPR03	I maintain a relationship with an FMCG brand that focuses on and communicates with me
18	RPR04	I have a passionate and emotional relationship with the FMCG brands I am loyal to
19	INV01	Loyalty towards an FMCG brand increases the more I am involved with it
20	INV02	Involvement with an FMCG brand intensifies my arousal and interest towards that brand
21	INV03	I consider other FMCG brands when my involvement with my FMCG brand diminishes
22	INV04	My choice of an FMCG brand is influenced by the involvement others have with their FMCG brand
23	PVL1	My FMCG brand loyalty is based on product quality and expected performance

No	Code	Question
24	PVL02	I have an emotional attachment with the FMCG brands I am loyal towards
25	PVL03	Price worthiness is a key influence in my loyalty towards FMCG brands
26	PVL04	The FMCG brands that I am loyal to enhance my social self-concept
27	COM01	I have pledged my loyalty to particular FMCG brands
28	COM02	I do not purchase/sample other FMCG brands if my FMCG brand is unavailable
29	COM03	I identify with the FMCG brands that I consume and feel part of the brand community
30	COM04	The more I become committed to an FMCG brand, the more loyal I become
31	COM05	I remain committed to FMCG brands even through price increases and declining popularity
32	RPS01	My loyalty towards FMCG brands is purely habitual
33	RPS02	I do not necessarily purchase the same FMCG brands all the time
34	RPS03	I always sample new FMCG brands as soon as they are available
35	RPS04	I establish an FMCG brand purchasing pattern and seldom deviate from it
36	RPS05	Loyalty programmes are the reason I repeat FMCG brand purchases
37	BAF01	I attain a positive emotional response through the usage of an FMCG brand
38	BAF02	The FMCG brands that I am loyal towards make a difference in my life
39	BAF03	I am distressed when I am unable to use/purchase a particular FMCG brand
40	BRV01	The FMCG brands that I am loyal towards stand for issues that actually matter
41	BRV02	The FMCG brands that I am loyal towards have freshness about them and portray positive significance
42	BRV03	I know that an FMCG brand is relevant through the brand messages communicated
43	BRV04	The FMCG brands that I am loyal towards are constantly updating and improving so as to stay relevant
44	BPF01	I evaluate an FMCG brand based on perceived performance
45	BPF02	I will switch FMCG brand loyalty should a better performing FMCG brand be available
46	BPF03	I am loyal only towards the top performing FMCG brand
47	CUL01	My choice of FMCG brands is in keeping with the choice made by other members in my race group

No	Code	Question
48	CUL02	My loyalty towards an FMCG brand is based on the choice of FMCG brand used by my family
49	CUL03	Religion plays a role in my choice and loyalty of FMCG brands
50	CUL04	Family-used FMCG brands indirectly assure brand security and trust



**APPENDIX B: BRAND LOYALTY MEASURES**

No	Code	Strongly agree	Agree	Agree somewhat	Un-decided	Disagree somewhat	Disagree	Strongly disagree	No missing	Mean	Std. dev
1	CUS01	24%	64%	12%	0%	0%	0%	0%	0	1.88	0.595
2	CUS02	23%	58%	12%	5%	2%	0%	0%	1	2.05	0.854
3	CUS03	51%	40%	4%	2%	2%	2%	0%	1	1.74	1.173
4	CUS04	54%	25%	12%	0%	0%	5%	4%	1	1.96	1.558
5	CUS05	41%	43%	9%	2%	2%	3%	0%	0	1.90	1.135
6	SCR01	28%	34%	10%	3%	7%	9%	9%	0	2.88	1.992
7	SCR02	21%	28%	22%	16%	2%	10%	2%	0	2.88	1.601
8	SCR03	16%	14%	22%	21%	9%	17%	2%	0	3.52	1.709
9	SCR04	12%	10%	14%	5%	12%	33%	14%	0	4.48	2.037
10	SCR05	9%	22%	17%	7%	16%	19%	10%	0	3.97	1.937
11	BTS01	31%	55%	7%	2%	2%	2%	2%	0	2.00	1.155
12	BTS02	33%	57%	7%	2%	2%	0%	0%	0	1.83	0.775
13	BTS03	52%	29%	12%	5%	2%	0%	0%	0	1.76	0.979

**APPENDIX B: RESPONSE TABLE (continued)**

No	Code	Strongly agree	Agree	Agree somewhat	Un-decided	Disagree somewhat	Disagree	Strongly disagree	No missing	Mean	Std. dev
14	BTS04	28%	42%	19%	2%	9%	0%	0%	1	2.21	1.145
15	RPR01	24%	49%	15%	9%	4%	0%	0%	3	2.20	1.026
16	RPR02	16%	36%	19%	10%	9%	5%	5%	0	2.97	1.665
17	RPR03	10%	43%	22%	12%	7%	3%	2%	0	2.79	1.348
18	RPR04	10%	40%	24%	9%	10%	3%	3%	0	2.93	1.485
19	INV01	17%	57%	10%	5%	3%	5%	2%	0	2.43	1.378
20	INV02	9%	48%	24%	10%	2%	7%	0%	0	2.69	1.245
21	INV03	12%	31%	28%	9%	5%	14%	2%	0	3.12	1.623
22	INV04	3%	21%	14%	7%	14%	19%	22%	0	4.53	1.993
23	PVL1	36%	53%	7%	0%	3%	0%	0%	0	1.81	0.847
24	PVL02	19%	26%	28%	3%	7%	16%	2%	0	3.07	1.746
25	PVL03	21%	33%	22%	2%	3%	7%	12%	0	3.03	1.982

**APPENDIX B: RESPONSE TABLE (continued)**

No	Code	Strongly agree	Agree	Agree somewhat	Un-decided	Disagree somewhat	Disagree	Strongly disagree	No missing	Mean	Std. dev
26	PVL04	5%	39%	26%	11%	12%	5%	2%	1	3.09	1.405
27	COM01	12%	31%	16%	12%	9%	16%	5%	0	3.41	1.836
28	COM02	12%	14%	17%	5%	14%	21%	17%	0	4.26	2.082
29	COM03	10%	47%	7%	19%	7%	10%	0%	0	2.97	1.521
30	COM04	24%	55%	14%	2%	3%	2%	0%	0	2.10	1.021
31	COM05	21%	31%	16%	10%	3%	12%	7%	0	3.09	1.904
32	RPS01	7%	33%	25%	11%	7%	12%	5%	1	3.35	1.695
33	RPS02	9%	26%	10%	10%	10%	17%	17%	0	4.09	2.080
34	RPS03	9%	24%	14%	2%	12%	24%	16%	0	4.19	2.098
35	RPS04	7%	26%	31%	7%	9%	16%	5%	0	3.52	1.719
36	RPS05	2%	23%	26%	4%	11%	23%	12%	1	4.16	1.869
37	BAF01	11%	40%	25%	9%	7%	7%	2%	1	2.89	1.460

**APPENDIX B: RESPONSE TABLE (continued)**

No	Code	Strongly agree	Agree	Agree somewhat	Un-decided	Disagree somewhat	Disagree	Strongly disagree	No missing	Mean	Std. dev
38	BAF02	23%	46%	12%	5%	7%	7%	0%	1	2.49	1.453
39	BAF03	18%	23%	28%	2%	9%	18%	4%	1	3.28	1.849
40	BRV01	14%	46%	14%	9%	13%	4%	0%	2	2.70	1.374
41	BRV02	25%	56%	9%	4%	5%	2%	0%	1	2.14	1.109
42	BRV03	11%	60%	16%	7%	4%	2%	2%	1	2.46	1.181
43	BRV04	26%	39%	21%	5%	7%	0%	2%	1	2.35	1.289
44	BPF01	9%	46%	25%	4%	5%	7%	5%	1	2.93	1.602
45	BPF02	14%	18%	23%	14%	9%	13%	9%	2	3.59	1.876
46	BPF03	19%	32%	12%	11%	9%	11%	7%	1	3.18	1.910
47	CUL01	4%	14%	7%	14%	11%	23%	27%	2	4.91	1.910
48	CUL02	5%	46%	9%	0%	11%	16%	14%	1	3.68	2.089
49	CUL03	4%	9%	11%	5%	7%	26%	39%	1	5.37	1.886
50	CUL04	11%	25%	19%	12%	11%	12%	11%	1	3.67	1.902



# CONCEPTUALIZING THE STUDENT'S CO-CREATION ROLE IN POST GRADUATE SERVICE ENCOUNTER

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**KEY WORDS:** SERVICE ENCOUNTER; SERVICE EXPERIENCE; SERVICE  
QUALITY; POSTGRADUATE QUALITY; RESEARCH CLIMATE.

# CONCEPTUALIZING THE STUDENT'S CO-CREATION ROLE IN POST GRADUATE SERVICE ENCOUNTER

## Abstract

In recognizing the learners' voice as a way of enhancing the learning engagement, much of the literature seems to concern itself with the undergraduate (UG) student and his or her role in the learning encounter. This paper explores the literature on postgraduate research education and attempts to conceptualize a model for enhancing the postgraduate students' experience by attributing co-responsibility for this experience to the postgraduate (PG) student. From a fairly in-depth review of the relevant literature, a theoretical model is developed which postulates that if PG students are effectively socialized and are clear about their role as co-creators of the service and if the research climate is supportive, then this will impact on their service experience and the PG service quality resulting from postgraduate service encounters. The implications of the model for management of quality in postgraduate education through managing the PG service encounter, is apparent.

## 1. Introduction

It is generally argued that people (customers) who are used to exercising choices about which services they use and where they spend their money are no longer happy simply to be 'passive recipients' of whatever kind of services they receive. Considering that the concept of student as customer is not new (Douglas, McClelland and Davies 2008; Finney and Finney, 2010), what is applicable to consumers (customers) generally should also, from this perspective, be applicable to (postgraduate) students.

Researchers such as Marcel and Harris (2000: 1173) argue that whether we view the (PG) student as a customer or not depends on how we define a customer. According to these researchers, if we think customers need specialized services and our assistance to accomplish a task and, if we believe students are full partners in their education and can help us improve our teaching through their thoughtful comments, then they should be considered as our primary customers. Angell, Heffernan and Megicks (2008: 236) assert that given higher education (HE) provision is a service, it is understandable for HE providers to adopt a more 'customer-led'

approach. These researchers further argue that since the 'service experience' extends beyond just the contact between students and academics, benefits may ensue from understanding the particular service requirements of postgraduates, tracking the quality of the service offered to these students, and understanding and acting upon areas requiring improvement.

While some researchers (Franz, 1998; Albanese, 1999; Emry, Kramer and Tian, 2001) argue that students should not be viewed as customers, there is overwhelming support for the contrary view, namely viewing students as customers and adopting the principles of customer service and Total Quality Management to the education environment (Conway, Mackay, and Yorke, 1994; Bejou, 2005; Obermiller, Fleenor and Raven, 2005).

Much of the research on postgraduates focused on the supervisor-student relationship. However, although in the HE sector, postgraduate students have always been expected to play an active role in the educational process (Little and Williams: 2011), it is surprising that not much relevant research has been conducted on the PG student and the PG service encounter. Furthermore, given that education is a service, and the postgraduate education environment has become increasingly competitive postgraduate-based research has been surprisingly negligible. This void is even more concerning since there is intense competition for PG students who not only generate greater income, but also improve a particular university's ranking.

In light of the aforementioned, this paper specifically focuses on the participatory role of the PG student in the service encounter, and is structured as follows: following a discussion of the theory on customer participation in the service encounter, the research climate and customer role socialization is discussed. By drawing heavily on the services marketing literature, relationships are proposed among certain variables in the postgraduate service encounter which are postulated to impact on the service experience and postgraduate service quality.

## **2. The Postgraduate Service Encounter**

### **2.1 Customer Participation, the Service Experience and Service Quality**

Customer participation is defined as the degree to which the customer is involved in producing and delivering the service (Dabholkar 1990, in Bendapudi and Leone, 2003: 14). Customer participation is not new and various services marketing theorists and researchers, inter-alia,



(Lovelock and Young, 1979; Mills and Morris, 1986; Kelley, Skinner and Donnelly, 1990; Bateson, 2002, as cited by Halvarsson and Lohela, 2009) have researched it over the years.

Benadapudi and Leone (2003: 16-17) undertook an extensive chronological review of the literature on customer participation in the production and consumption of services dating from 1979 where the customer is viewed as a source of productivity gains (Lovelock and Young), to 2000 when the concept of 'customerization' was coined (Wind and Rangaswamy) to describe the involvement of the customer in the product (service) development, purchase and consumption. The abovementioned (extensive) literature review which encapsulates both conceptual and empirical research recognizes and reinforces the importance of the customer in the service delivery process.

Thus, despite there being different views (Albanese, 1999), the notion of the student as consumer has long been accepted across countries (Little and Williams, 2011). Furthermore, according to McCulloch (2009: 171) a more appropriate metaphor to characterize the relationship of the student to the higher education provider is one of co-production, since students, lecturers and others who support the learning are viewed as being engaged in a cooperative enterprise, focused on production, dissemination and application of knowledge.

Although there are positive outcomes linked to customer participation, Zeithaml and Bitner (2000) caution that customer participation raises several issues for the organization. For example, Kotze and du Plessis (2003) allude to a level of uncertainty in the service delivery process due to customer participation, since the service organization does not have the same level of control over customers as it would (and does) over the employees. Furthermore, Hoffman and Bateson (2006) highlight that customer participation may include disadvantages predominantly, concerning the loss of control over the service outcome.

Thus, to manage the customers who are involved in the service delivery process, organizations have to develop mechanisms that facilitate the service encounter. In the PG encounter, PG students do not passively consume the services but are actively involved in the 'servunction' (service production and consumption) process, thus influencing the process and the service itself. Although some researchers (Levitt, 1972; Chase, 1978 as cited by Govender, 1998: 46) argue

that less direct contact between the customer and the service production system can contribute to efficiency, others (Mills, Chase and Margulies, 1983) concur that services can be delivered most efficiently if customers are viewed as ‘partial’ employees and their participative roles designed to maximize their contributions to the service delivery process. Support for the aforementioned view was evident in the research by Kelley, Skinner, and Donnelly (1992) who found that customers who believe that they have done their part to be effective in the service interactions are more satisfied with the service.

Claycomb, Lengnick-Hall and Inks (2001) define three different levels of customer participation, namely, high, moderate and low. There is adequate support (Kotze and du Plessis, 2003) for the view that educational services fall into the category of ‘high’ customer participation. The PG students’ participation can also be defined as ‘high’ since they work in partnership with the service organization to help assess the need for the service, customize the design and delivery of the service, and produce a portion or all of the service (thesis/dissertation) themselves.

Despite views pro and against student participation, Hsieh and Yen (2005: 891) argue that customer participation raises productivity, service performance, and contributes to service quality and customer satisfaction. Furthermore, Bettencourt (1997) asserts that when service customers are actually involved in the co-production of service, then they behave as if they are ‘partial employees’ by contributing effort, time or other resources to the service design. This assertion was reinforced by Kelley, Donnelly and Skinner (1990) who argued that as co-producers, if customers are viewed as partial employees, these ‘partial employees’ can contribute to the organization’s productive capacity.

Given the above, the next section would elaborate on the co-production (partial employee) role of the service customer by referring specifically to the PG student.

## **2.2 Postgraduate Service Co-creation, Service Experience and Service Quality**

Every time a customer interacts with a service organization (by phone, mail, technology or in person), a service encounter occurs. This interaction according to Bettencourt and Gwinner (1996: 3) becomes the focal point in consumer evaluations of the entire service organization, since service experiences are developed as a result of these encounters, and each encounter

provides an opportunity not only for the service organization to either impress or disappoint the service customer, but for the customer to develop perceptions of the service experience and quality.

Although in PG supervision, face to face interaction or personalization between the student and supervisor is vital to the outcome of the service experience, there are many opportunities for things to go wrong when the student and supervisor interact, when both parties experience and respond to each other's mannerisms, attitude, competence, mood, language etc. Since 'incidents' occur each time there is interaction, some incidents may be trivial and other may be important (critical) to a successful encounter. These 'critical incidents' according to Bitner, Booms and Mohr (1994) are interactions that are either 'satisfying or dissatisfying' which provide an opportunity for the customers to through their service experience, form an opinion of the service quality. These researchers also assert that customer's perception of the service encounter is a crucial component in the evaluation of the total quality of the service. This assertion is particularly true of repetitive services such as between PG students and their supervisors/the institution, where long term relations depend on a number of encounters since PG students usually interact closely with their supervisors for several years before 'disengagement' preferably and ideally upon successful completion of the PG degree. However it must be noted that the 'quality of interaction' between the PG research supervisor and PG student is a complex variable, highly affected by subtle factors of verbal and non-verbal communication between the various players.

It has been well articulated in the service quality literature (Zeithaml and Bitner, 2000; Dale 2003) that each 'moment of truth' impacts on the service user's overall impression and evaluation of the service and ultimately on their perception of service quality. Although each and every encounter is important, and since relationships are built (or destroyed) one encounter at a time, it is not always apparent which encounter is more important. Thus this presents a major challenge for a service organization striving to build good relationships with customers to guarantee continued loyalty and patronage (Bitner, 1995: 249). For example, in the context of PG education, there are no assurances that a student pursuing a masters degree would return to the institution to embark on doctoral studies. According to the relationship marketing literature

(Christopher, Payne and Ballantine, 1993) the practice of relationship marketing is most applicable to a service organization in which, inter-alia, the service customer controls the selection of the service supplier and there is ongoing or periodic desire for the service on the part of the service customer. Service encounters, such as that between PG students and their supervisors (and the institution) can be described as a 'relationship' based series of encounters, since each cannot be viewed as being discrete and in isolation of preceding exchanges. Moreover, the supervision process is in itself a relationship, and the kind of relationship which evolves will, according to Aspad, Edwards, 'O Leary and Ryan (1999: 129), heavily influence the students' success or failure in gaining a PG qualification, as well as their perception of the overall service experience and service quality.

However, Dann (2008: 333) cautions that PG research supervision is a complex service encounter drawing on the pedagogical structures of higher education and the interpersonal dynamics of highly customized service delivery, since within this structure there is a duality of responsibility for the successful completion of the research project between the PG student and supervisor.

According to Bitner, Faranda, Hubbert and Zeithaml (1997: 193), service experiences are the outcomes of interactions between organizations, related systems and processes, service employees and customers. Douglas *et al.* (2008) stated that perceived higher education (HE) service quality could be the product of a number of service encounter evaluations by students. Such encounters would be with administrators, lecturing staff, academic managers and other HE staff. Bitner *et al.* (1997) assert that although in many services customers themselves have vital roles to play in creating service outcomes and ultimately enhancing or detracting from their own satisfaction and value received, little research has been conducted on the customer's role. This assertion holds true for HE, more specifically with respect to postgraduate students.

Although the service customer, has been described as a partial employee or quasi employee, co-producer and co-creator (Lengnick-Hall and Sanders, 1997: 1339), for the purpose of this research, the PG student is described as a co-creator. The rationale for this is that the output of a PG encounter is the production of a graduate with a masters dissertation or doctorate thesis, both of which are contributions to knowledge. In order to produce (create) this knowledge, the PG

student works under the guidance of a research supervisor. Given the aforementioned, the key decision then is the extent to which the PG students' co-creation roles are deliberately designed and managed to enhance high service quality outcomes.

Prahalad and Ramaswamy (2004) identified preconditions for services co-creation as being situations where the service product requires joint problem definition and solving, plus creation of personalized experiences within an environment that is conducive to dialogue, co-construction of the service and joint engagement in creating mutually beneficial outcomes. These researchers further assert that co-creation comes with a level of assumed risk for the consumer in that they assume a level of responsibility for the satisfactory nature of the outcome.

Senge (1994) cautions that by viewing the service encounter as a 'microcosm' or 'micro' world, we should not lose sight of the functioning of the whole delivery system. Furthermore, Chung and Law (2010: 255) assert that educational service quality should be assessed as the 'total experience' so as to capture the entire learning experience of the students during the period of enrollment at the university. Furthermore, according to Alridge and Rowley (1998: 198), work on approaches to the evaluation of the students' experience can be divided into two loosely bound categories, namely, methods that focus on assessing teaching and learning, and methods that assess the total student experience. In concurring with the researchers cited above, it can be stated that PG service providers (HEIs) need to see the 'full' pattern/picture of their operations rather than snapshots of the system.

In order to manage PG service quality, it is important to understand what happens during the PG service encounter and what affects the customer's perception of them. Since PG service encounters do not take place in a vacuum, but in a specific milieu, it is important also to understand the relationship (and perhaps impact) of the service 'climate' of the service organization on the service encounter.

Schneider and Bowen (1995) argue that since the interaction which takes place between the (service) organization, its employees and customers during the service encounter (in many cases) cannot be clearly specified beforehand, the climate of the organization offers an ad hoc means of specifying the activities which should be carried out. Research (Schneider, Gunnarson and Niles-

Jolley, 1994) has shown that organizations need to be aware of three kinds of organizational climate (OC) in order to ensure the success of quality improvement efforts: a climate for service, a climate for innovation, and a climate for human resources or employee welfare. Thus when a product is not immediately available (such as a post-graduate degree), service firms must rely on managing tangibles such as the setting, and contact personnel to create a positive image for their intangible offering. Furthermore, although situations vary from organization to organization, there are some common and identifiable features of organizational environments that serve to support quality customer service. Schneider and Bowen (1995) found that the manner in which the service was delivered on climate dimensions was strongly related to customer evaluations of the service they received and their intentions to continue using the service. Since the intangibility of services makes it difficult for management, employees, and customers to assess the service output and service quality, consequently, the organization's overall climate for service is very important in shaping both customers' and front-line employees' attitude about the process and outcome of service delivery.

Given the aforementioned, especially the implied importance of the OC, the next section of the literature review will expand on the concept OC so as to properly locate its relevance in this conceptual study.

### **3. The Postgraduate Research Climate, Service Experience and Service Quality**

Over the years, several explanations have emerged about the dimensions that constitute the OC construct and Tyagi (1982) identified four general OC variables which were found to be causative factors for attitude and performance, namely, job challenge and variety, job importance, task conflict, role overload, leadership consideration, organizational identification, and management concerns and awareness. Since OCs can be supportive or non-supportive of quality customer service, Rogg, Schmidt, Shull, and Schmitt (2001) argued that everything the organization can do to enhance a service climate, 'from selection and training to reward systems and leadership style' must be invoked to guide employee behavior and service excellence.

Due to occupying the position of 'boundary spanners' service employees are sensitive to service-related practices and procedures and their impact on the service that customers receive

(Schneider, Parkington and Bixton, 1980, as cited by Dietz, Pugh and Wiley ,2004: 83). For the service customer the service employee is the ‘organization,’ and through contact with the service employee, opportunities are created for customers to pick up cues from employees with regard to the service climate which manifests itself in employee behaviours.

Some researchers such as Schneider, *et al.* (1994) assert that employees (and customers) observe what happens to them (and around them), and draw conclusions about the organization’s priorities. These perceptions provide employees with direction and orientation about where they should focus their energies and competencies. Since service quality is in the delivery, it is the interaction between the service deliverer and the consumer which determines service quality for the consumer. Ancarni, Mauro and Gimmanco (2011) also ascertained that in a hospital setting, employees’ perception of the organizational climate mediates the patients’ satisfaction, and the manager’s ability to shape the OC is critical in order to increase patients’ satisfaction.

Le Blanc and Nguyen (1997) ascertained that service quality is derived mainly from reputation, a factor which (they propose) is tied closely to management’s capacity to foster an OC directed at serving the needs of its customers and to the image of the business school. Salanova and Peiro (2005) stress that a service climate focuses service employee effort and competency on delivering service, which in turn yields positive experiences for customers as well as positive customer perceptions of service quality. Furthermore, these researchers who examined the mediating role of service climate in the prediction of employee performance and customer loyalty ascertained that organizational practices and resources predict service climate, which in turn predicts employee performance and customer loyalty. The organizational practices according to Salanova and Peiro (2005) are akin to the service climate.

Since services are intangible, Dietz, *et al.* (2004: 81) argued that the creation of a climate for excellent service was important to ensure that customers received high quality service. Although in the post graduate HE environment several service employees (academic and administrative), may influence the PG students’ service experience, for the purpose of this study, the research climate may be defined as the research students perceptions of organizational policies, practices and procedures which promote a climate which recognizes and rewards service to the PG students. This definition by implication suggests ‘customer orientation’ as an important facet of

the research climate and that much rests on the perceptions of the individual research supervisor, which influences his/her behavior. Thus, the research climate which manifests itself through the OC will depend on the fundamental support provided by HEIs through resources, training, managerial practices and assistance required to perform effectively, (Schneider, *et al.*, 1998).

According to Dietz, *et al.* (2004), when excellent service is an important theme in an organization, a positive service climate exists. Furthermore, when employees (and customers) form climate perceptions about the organization (HEI) and about its subunits (school/department), they consider different elements of their work environment, forming distinct perceptions of the organization-targeted and unit-targeted service climates. Consistent with service climate theory according to which a subunit's positive service climate facilitates delivery of excellent service and improves customer perceptions and reactions, this paper assumes that with specific reference to the PG research environment, the climate for research service at the school/department level is developed from the university's research service climate. Since PG students interact more with the sub-unit (discipline/department/school) employee (supervisor), they are likely to develop their perception of the research climate through these interactions.

The OC as it pertains to the HE environment, and more especially the PG students' perception and impact thereof on service performance (quality of supervision and the students' experience) has not received much attention by researchers. In order to explore this further, it is postulated that:

**P1:** The OC as perceived by the postgraduate students' (PGSs) is associated with their perception of the postgraduate service experience (SERVEXP).

The literature has confirmed that in a service industry such as HE, the service delivered cannot be separated from the people producing/delivering the service. Citing George (1990), Lusch, Boyt and Schuler (1996:181) argued that because the customer interacts directly with the employees during the service encounter, employee socialization becomes especially important, and that the employee must be socialized into developing a strong service and customer orientation commitment if the firm is to be successful.



Since according to Schein (1968) socialization focuses on how individuals learn the beliefs, values, orientation, behaviours and skills necessary to fulfill their role and function effectively within an organization's milieu, Taormina (1999:651), argues it is logical to expect that organizational socialization should play a role in establishing a research culture and climate. The literature will now explore the concept organizational socialization to ascertain its association with the research (OC) climate and other service variables.

### **3.1 Organizational Socialization, Research Climate, and Service Experience**

Organizational socialization (OS) is the process by which employees learn, appreciate and internalize an organization's goals, values, social knowledge, and expected behaviours (Wagner and Hollenbeck, 1996, as cited by Anakwe and Greenhaus, 1999). The process would include, inter-alia, formal training programmes that teach employees the (technical) skills associated with performing their jobs, as well as informal, day to day interactions with employees, managers and customers.

Cooper-Thomas and Anderson (2006) argued that despite the importance of OS for both employees and organizations, and it (OS) having advanced to a central topic in the field of HRM (Antonacopoulou and Guttel, 2010), comparison of research in different areas of industrial and organizational psychology showed the OS as it pertains to higher education environments is still largely un-researched. Moreover, this may be even true with respect to research pertaining to existing employees, since most research on OS seems to be concentrated on newcomers to the organization. Since OS is a learning process and organizations are not static, OS in the context of a learning organization and life-long learning will be equally relevant to existing employees. Furthermore, despite the large amount of research (Van Maanen and Schein 1979, Reichers 1987 and Wanous 1992, as cited by Anakwe and Greenhaus, 1999, and Taormina, 1997) on organizational socialization which included topics such as socialization stages, socialization tactics, organizational socialization and organizational culture, etc., and its applicability to various types of service organizations, there is little evidence to suggest that research had been conducted specifically targeting the PG research encounter or the PG researcher supervisor. Thus, there remains a need for research that informs the practice and enables HEIs to achieve OS success.

Furthermore, Cohen and Veled-Hecht (2010: 539) argue that organizational socialization has never been explored in the context of commitment in the workplace despite commitment influencing significant outcomes such as 'in-role and extra-role performance,' and socialization affecting the commitment levels of employees. Although the present study does not include organizational commitment as a concept of study, of interest is the relation with the concept organizational socialization, more especially role and performance, since the aforementioned outcomes are purported to be associated with the PG students' service experience.

Researchers have argued that perceptions of the organizational climate are the result of organizational socialization, and McNabb and Sepic (1995) went a step further to argue that the process of organizational socialization results in role learning and gaining an appreciation of the climate on the part of the individual. Bock, Zmud, Kim, and Lee (2005) posited that to move from a culture for hoarding knowledge in order to gain power, towards one that rewards the sharing of knowledge with an increase in power, we need to create a climate (for service) that fosters long-lived, trusting relationships. The sharing of knowledge is a necessary trait for fostering a positive research culture and climate, where both PG students and PG research supervisor's could prosper. Furthermore, Lusch, *et al.* (1996) cite several authors (Schneider, 1980; Zemke and Schaaf, 1989) who highlighted the importance of socializing employees into adopting a service quality culture, since they argued that when an employee does this, it would translate into increased customer satisfaction. Rogg, *et al.* (2001: 437) ascertained that the HR practices-organizational performance relationship is mediated by organizational climate. Elements of their measure of HR practices included items concerning employee orientation, formal job descriptions, etc., which are similar to socialization.

In view of the aforementioned, it is postulated that:

P2: The OS of PG students is associated with their perception of the OC.

Lengnick-Hall, Claycomb and Inks (2000) argue that active participation is unavoidable in the case of human service organizations such as universities and other tertiary institutions. Other researchers (Kotze and du Plessis, 2003), concur that through participation in an array of learning activities, students co-produce their education. Because students are active participants in the

delivery of educational services, by building on the work of Kelley, *et al.* (1992), and Govender (1998), the aforementioned researchers proposed a conceptual model for socializing the undergraduate ‘student-customer’. Kotze and du Plessis (2003) found further support for the work of Govender (1998), and argued that students as customers can be socialized by formal and informal means. Subsequently, Halvarsson and Lohela (2009: 11) constructed a table (Table 1) of customer organizational socialization methods with respect to education, from adapting the work of Kelley *et al.* (1990) and Kotze and du Plessis (2003). Table 1 specifically refers to the organizational socialization of the PG student and is included merely to augment our understanding of how socialization works in practice, especially in the postgraduate research environment.

**Table 1: Organizational Socialization of PG Students**

<b>METHOD</b>	<b>EXAMPLE WITHIN PG EDUCATION</b>
Organizational Literature	Students Guide to Theses and Dissertations
Observation of other Students	Group Supervision Sessions; Research Seminars/Workshops
Learning from Employees	Informal consultations among colleagues; Meetings where PG issues are discussed
Service Level Agreements	Supervisor-student Contracts

**Source:** Adapted from Halvarsson and Lohela, 2009.

Although much of the above discussion specifically referred to OS as it pertains to the service employee, given that the service customer is viewed as a partial or quasi employee (Kelley, *et al.*, 1990) and co-creator of the service (Legnick-Hall and Saunders, 1997), it would be logical to assume that it has relevance to the PG student (service customer). Given the above, it is proposed that:

P3: The OS of PG students is associated with their SERVEXP

Co-producers must know what they are expected to do and how they are expected to perform in order to be effective (Mills, *et al.*, 1983). The role theory perspective recognizes that in the service encounter a number of rules must be observed (Solomon, Suprenant, Czepiel & Gutman, 1985). Taormina (1997: 29) cites Van Maanen and Schein (1979) who stated that ‘organizational socialization is a process by which an individual acquires the social knowledge and skills necessary to assume an organizational role.’ Furthermore, by defining role as a basic unit of socialization, Kendall (1996: 64) asserts that role implies a social determinism, which means that roles are assumed as a result of conditioning (socialization) by society/organization.

Despite PG students being crucial elements brought into the service operation through the service encounter, they are simultaneously problematic in that their behavior cannot be predicted with any degree of regularity and they have different demands/expectations. Moreover, customer and service personnel who both participate in the service delivery depend on each other for a successful service encounter. Schneider and Bowen (1995: 3) assert that each not only bring needs and expectations, but also competencies which has to be harnessed to ensure that they fulfill their roles effectively. These researchers postulate that since the customer is the foundation of any service organization, management practice should be based on a deep knowledge of customer characteristics in three areas: expectations, needs, and competencies. These researchers further argue that organizations which can capitalize on customer competencies can become big winners.

Hill (1995) contends that the consumers’ input constitutes the ‘raw materials’ that is transformed by the service organizations’ employees into a service product. Consequently the consumer contributes directly to the quality of service delivered and to his or her own (dis)satisfaction. In the PG service encounter, if the PG student does not submit the chapters on time or fails to meet with the supervisor regularly or as agreed, this may result in the student not being able to complete his/her thesis/dissertation as planned. Lengnick-Hall and Sanders (1997:1339) suggest that the ideas guiding Lawler’s (1992) high-involvement structure can be applied to external co-producers as well as to traditional employees. By implication, the PG student-supervisor encounter being a high-involvement learning system requires the institution to provide the

student with information, knowledge, power and rewards that enable them to become more effective participants.

In light of the discussion above, it may be postulated that:

P4: The PGs perception of their role (RC) is associated with their service experience (SERVEXP).

Since service quality depends on service performance, and performance alludes to specific roles, the role of the PG student (service customer) in the service encounter, more specifically how it is acquired (learnt) will be explored in little more detail.

### **3.2 Organizational Socialization, Organizational Climate and Role Clarity**

Since in educational systems, especially postgraduate research, students have no choice but to become co-producers because they are inherently responsible for the learning that takes place, researchers (Lengnick-Hall and Sanders, 1997) have argued that the key decision then is the extent to which student co-production roles are deliberately designed and managed to enhance high quality outcomes. With regard to PG education, especially in the preparation of a dissertation or thesis, the student is required to actively participate and perform a ‘multiplicity’ of roles. Given the aforementioned, it may be relevant to ask the following questions:

Do PG students understand their roles? How do they get to learn about their roles? Do tensions arise in their performance and engagement in the learning process? Is there a lack of clarity and acceptance of the roles and responsibilities among the students and the staff? What impact (if any) does the PG students’ perception of their role have on their service experience and service quality? Answers to some of the aforementioned questions may be found in the discussion which follows.

Govender (1998: 47) cites Larson and Bowen (1990) who contend that the more activities the customer tends to contribute, the higher the ‘input uncertainty’ because the organization has incomplete information about what the customer will do before the service encounter. This uncertainty could stem from insufficient ability, information or lack of role clarity. This implies that the service customer, in this case the PG research student should have proper ‘orientation’ as

disorientation can result in the service employee spending more time answering directional questions rather than providing the core service, namely supervision.

The role theory perspective recognizes that in any interaction between the customer and the service employee (service encounter), a number of rules must be observed.. Kendall (1996: 64) asserts that role which is a basic unit of socialization, implies a social determinism, which further implies that roles are assumed as a result of conditioning by society/organization. When customers participate in the service production and delivery process, each customer who assumes partial work responsibilities may not perform a portion of the work since they do not understand the service offering or their role in obtaining the service experience. This reasoning can be extended to the weak PG student who for example may have a poor command of the English language and thus depends on the supervisor to correct the grammar and other writing style aspects. According to Hsieh and Yen (2005: 892) this could result in the service providers' job stress which may by deduction be transferred to service performance on the part of the employee and result in a poor service experience for the customer. Furthermore, the aforementioned researchers ascertained that the 'higher the customer participation (as in the post graduate service encounter), the higher the level of role conflict on the part of the service employee, (Hsieh and Yen, 2005:893).

Several researchers (Bowen 1986, Steers and Porter, 1975, as cited by Lengnick- Hall and Sanders,1997), concur that three factors appear to be crucial to becoming an effective co-producer: task clarity, ability and motivation. Co-producers must know what they are expected to do and how they are expected to perform in order to be effective. With regard to motivation, co-producers, especially PG students, need 'clear, challenging but achievable, measured goals to be accomplished within a specific time' (Lengnick-Hall and Sanders, 1997: 1340).

Webb (2000) argues that although the dyadic nature of services has long been recognized in the literature, surprisingly little is known about the role of the customer during consumption. Kelley, *et al* (1990) also considered the role of the customer during service interaction and referred to customer technical quality (those dimensions brought to the interaction) and customer functional quality (how the customer behaves during interaction). With respect to the postgraduate student, customer technical quality is very important since the 'labour and information' supplied

contribute to the quality of the thesis or dissertation. Kelley, *et al.*(1990), as cited by Webb (2000: 4) contend that both customer service involvement and role identification have an impact on expectations, and these in turn determine the level of satisfaction experienced.

Given that service organization customers are viewed as partial or quasi employees, the concept of socialization appears applicable in order to manage their performance. Citing Kelley *et al* (1990) and Kotze and du Plessis (2003), Halvarsson and Lohela (2009:10) assert that to stimulate more effective customer participation, the service organization's customer socialization efforts should address the requirements of effective participation, namely role clarity, ability and motivation.

When an individual has gained an appropriate understanding of his/her role and the roles of other members of the role set, it is possible to formulate accurate role expectations. Cooper-Thomas and Anderson (2006) report that research (Ashforth and Saks, 1996; Saks and Ashforth, 1997) confirms that institutionalized organizational socialization tactics are associated with lower role ambiguity, role conflict and intentions to quit. Schneider and Bowen (1995) also concur that in order for the service employee to learn his/her role, and be able to form accurate role expectations, they must be socialized into the organization.

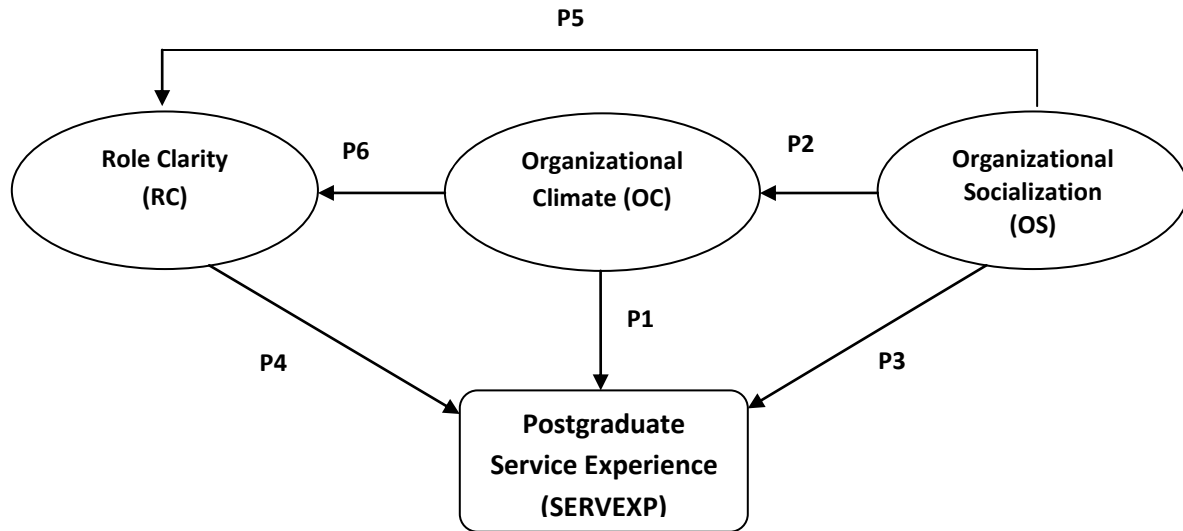
Although a great deal of conceptual and empirical work has been done regarding the socialization of employees and to a limited extent service customers of various organizations, the process of OS and its impact on the PG research service encounter has not received much attention. Given the aforementioned, and based on the preceding literature review,, it is proposed that:

P5: The OS of the PG students is associated with their role perception (RC).

P6: The PG research students' perception of the research climate (RC) is associated with their perception of their role (RC).

The aforementioned (P1-P6) propositions are depicted schematically (Figure 1) as a conceptual model which reflects possible relationships among OS-OC-RC-SERVEXP as they pertain to the postgraduate research environment.

**Figure 1: Proposed Postgraduate Service Encounter Model**



#### **4. Concluding Remarks**

For any organization, attempting to improve quality performance significantly is a major undertaking and this is particularly true of PG education. Despite service quality being a multifaceted construct, the centrality of the role of the consumer cum PG student has to be highlighted.

Given that HEIs are charged with the responsibility of graduating students who are well grounded and can contribute to societal development and advancement, and also (in most countries) government research funding is contingent on ‘on-time’ student completion, this paper attempted to enhance our understanding of the PG service experience, by developing a conceptual model which entailed exploring relevant literature and proposing relationships among certain variables. The literature alludes to the need for PG research students to be clear about their roles, and if this is so, then the possibility exists for them to have a good service experience. It also became apparent that the HEI plays an important part in providing role clarity for PG research student, and one way of doing so is through a process of socialization. The research (organizational) climate or milieu also seems to impact on the role perception by the PG research



student. Several relationships, among the variables OS, RC, OC have been postulated to impact on the PG students' postgraduate service experience (SERVEXP).

The next obvious step would be to conduct research among a sample of postgraduate research students to empirically evaluate the conceptual model and ascertain the nature of the proposed relationships among the variables.

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**CONSUMER PREFERENCES TOWARDS THE MARKETING COMMUNICATION  
ACTIVITIES OF NON-PROFIT ORGANISATIONS IN GAUTENG: A  
GENERATIONAL PERSPECTIVE**

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**Full length paper for the competitive stream**

**Key words:** Marketing communication, Generations, Non-profit organisations (NPOs)

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**ABSTRACT**

With donations declining as donors become older (Baby Boomers), non-profit organisations (NPOs) are compelled to shift their marketing focus to younger generations (Generation X and Generation Y) if they are to survive in a sector hampered by an increase in competition, a lack of funding and a shortage of volunteers. In order to address the younger generations, NPOs are required to have a better understanding of their donors' demographic and psychographic characteristics, as this would enable them to communicate more effectively with the respective generations. As such, the purpose of this study is to measure the preferences of Baby Boomers, Generation X and Generation Y as current donors towards the marketing communication activities of NPOs. More specifically, the generations' preferences towards the nature of marketing done by NPOs, the marketing communication elements, media channels, marketing messages and communication sources used by NPOs are measured and based on the results, a number of recommendations are suggested as to how NPOs should adapt their marketing communication strategies when addressing the different generations.

Exploratory research, in the form of a secondary data analysis and five informal expert surveys, as well as descriptive research, in the form of a structured self-administered questionnaire was used to obtain the necessary data. The target population included all Baby Boomers (i.e. individuals born between 1946 and 1964), Generation X (i.e. individuals born between 1965 and 1976), and Generation Y members (i.e. individuals born between 1977 and 1994) residing in Gauteng, who had supported an NPO in the previous year and who were representative of the four major racial groups in South Africa (i.e. Black, Coloured, Indian and White). Quota sampling was used to divide the population into three quotas according to generation, while convenience sampling was used to fill each quota. In-home and intercept interviewing was used to obtain the necessary data from the respondents.



In the end, the results revealed a number of similarities and differences between the three generations in terms of their preferences towards the marketing communication activities of NPOs. In terms of the generations' preferences towards the nature of marketing done in the NPO sector, the respondents generally prefer NPOs that provide them with different options in terms of how they can support the NPO. More specific differences reveal that Generation Y, in contrast to Baby Boomers, prefers NPOs that allow them to provide feedback on their experience with the NPO.

Considering the marketing communication elements that NPOs can use to convince the different generations to support them, respondents overall show preference towards making small contributions for a product purchased. More specifically Generation X and Generation Y prefer online fundraising appeals and social networks; Generation Y prefers NPOs' websites; Generation X prefers special events and Baby Boomers show a strong preference towards articles placed in newspapers and magazines. In terms of the media channels that NPOs can use to communicate with donors, the respondents overall have a preference towards radio. In terms of specific differences between the generations, Generation Y and Generation X prefer the Internet, while Generation X prefers e-mail messages in relation to Baby Boomers, and sms messages in relation to Generation Y.

As for the marketing messages used by NPOs, the respondents overall prefer the NPO's marketing message if it is a positive one rather than a negative one. Comparing the generations, it is evident that Generation Y, compared to Baby Boomers, prefer the marketing messages of NPOs that create an emotion, that show information that will shock them, that use music which is popular to Generation Y listeners, and that contain images which attract their attention. In terms of the communication sources that NPOs might use, the respondents overall have a preference towards the NPO itself as the source – and, to a slightly lesser degree, if a beneficiary of the NPO is the source.

Based on the similarities and differences between the generations, a number of specific recommendations are formulated in terms of how NPOs should communicate with the different

generations, which media channels to use, the type of messages that should be conveyed and which communication source to use.

**Key words:** Marketing communication, Generations, Non-profit organisations (NPOs)

## 1. INTRODUCTION

Non-profit organisations (NPOs) have to endure in an industry that is characterised by extreme competition, a scarcity of funding, lack of volunteers, limited marketing skills and a scarceness of research to aid them in understanding their donor base (Andreasen & Kotler, 2003:11; Lamb, Hair, McDaniel, Boshoff & Terblanche, 2008:421). In addition NPOs need to stay abreast as to how their donors' behaviour is changing, since their demographic, socio-economic and psychographic characteristics affect their levels of donations made (Schlegelmilch, Diamantopoulos & Love, 1997a:20,24). As such, research indicates that donations to NPOs increase as donors become older, but tends to decrease once donors reach the age of 65 (Schlegelmilch et al., 1997a:24). Accordingly, NPOs are compelled to shift their focus from the older Baby Boomers to the newer generations, including Generation X and Generation Y (Schlegelmilch et al., 1997a:24).

In addressing these challenges it is suggested that NPOs adopt business tools such as marketing, in an attempt to compete successfully with other NPOs and with profit-driven organisations (Dann, Harris, Mort, Fry & Binney, 2007:298; Jenkinson, Sain & Bishop, 2005:80). In addition, NPOs need to focus their marketing strategies on the younger generations in an effort to obtain support from them (Schlegelmilch et al., 1997a: 24). However, in doing so, it is necessary for NPOs to have a better understanding of their donors' demographic and psychographic characteristics, as this would enable NPOs to develop more effective marketing campaigns (Nichols, 2004:167).

NPOs need to shift their focus to the younger generations. This is not an easy task as there is limited research available on how they should adapt their marketing strategies when targeting the younger generations. As such, the purpose of this study is to provide a better understanding of the different generations' preferences towards the marketing communication activities of NPOs and to provide some insight in terms of how marketing communication strategies should change when communicating with each generational cohort.

## **2. PROBLEM INVESTIGATED**

Having to survive in an industry influenced by competitors, decreasing donations, and a scarcity of volunteers, NPOs are required to adopt business tools more traditionally associated with profit-driven organisations – such as marketing – as a way of differentiating themselves and getting the support that they so desperately need (Andreasen & Kotler, 2003:11; Dann et al., 2007:298; Lamb et al., 2008:421). Cognisant of the newfound importance of marketing, NPOs are furthermore challenged in whom to target with their marketing strategies.

With a decline in donations from older donors (the Baby Boomers), NPOs are being compelled to start focusing their efforts on the younger generations (Generation X and Generation Y) and developing specific marketing strategies to attract these younger donors (Schlegelmilch et al., 1997a:24). However, when approaching either Baby Boomers, or Generation X and Generation Y, NPOs need to have a better understanding of their preferences towards marketing communication, as this allows NPOs to develop more effective marketing communication strategies (Blackwell, Miniard & Engel, 2006:392; Nichols, 2004:167).

## **3. RESEARCH OBJECTIVES**

The primary objective of this study is to investigate the preferences of Baby Boomers, Generation X and Generation Y towards the marketing communication activities of NPOs in Gauteng, South Africa.

In order to attain the primary objective, it is necessary to set a number of secondary objectives. As such, the secondary objectives for this study are to determine and compare the preferences of the three generations towards the marketing communication activities of NPOs, in terms of:

- the nature of marketing in the NPO sector;
- marketing communication elements used by NPOs;
- media channels used by NPOs;
- marketing messages used by NPOs; and

- communication sources used by NPOs.

#### **4. LITERATURE REVIEW**

This section provides an overview of NPOs, marketing in the NPO landscape, consumer preferences and generational theory in order to obtain a better understanding of the concepts under investigation.

##### **Non-profit organisations**

NPOs aim to establish mutually beneficial relationships between various parties with the intention to deliver goods and services to the benefit of society (Clohesy, 2003:135). These interactions are two-sided, with NPOs marketing themselves to donors and volunteers in an attempt to generate resources from them, while on the other hand allocating the resources generated to the relevant beneficiaries and activities that they are engaged in (Lamb et al., 2008:422; Macedo & Pinho, 2006:537). In the end, NPO marketers are faced with the challenge of generating maximum support (whether through fundraising, revenue generation, or via volunteering) in the most cost-effective manner – while not losing sight of the NPO's core mission (Andreasen & Kotler, 2003:185).

Adding to this challenge, the NPO sector has seen a magnitude of NPOs registering across the globe and South Africa is no different (Bennett, 2005:453). According to the database of the Department of Social Development more than 71 000 NPOs are registered, of which 20 948 are registered in Gauteng alone (Department of Social Development, 2010). As a result, there is a lot of pressure on NPOs to learn from profit-driven organisations and incorporate some of their techniques to ensure that they stay ahead in their sector (Illingworth, Williams & Burnett, 2002:280). Consequently, NPOs are increasingly recognising the potential of marketing as an important business tool that can assist them if they want to compete with other NPOs and profit-driven organisations for clients and donations (Bennett, 2005:456; Dann et al., 2007:298; Jenkinson et al., 2005:80).

## **Marketing in the NPO landscape**

Due to the increase in the number of NPOs competing for support, a lack of funding and a shortage of volunteers, NPOs need to adopt business tools usually associated with profit-driven organisations – business tools such as marketing (Jenkinson et al., 2005:80). Although a number of NPOs have started to adopt and implement various marketing techniques, it seems as if NPO marketers are set on using visual communication and other fundraising tools that they know, and are therefore not adopting marketing as a guiding philosophy (Balabanis, Stables and Phillips, 1997:583). Thus, NPOs should expand their marketing to become more comprehensive, by adopting some of the following marketing techniques: market orientation, relationship marketing, and integrated marketing communication (Dann et al., 2007:298; Jenkinson et al., 2005:80; Warnaby & Finney, 2005:184).

Using a more market-orientated approach, NPOs identify donors' current and future needs, and satisfy these needs by delivering greater value within the restrictions of their reduced budgets (Bennett, 2005:456). In the implementation of a market-orientated approach, an organisation strives to be more competitive by adapting its strategy to meet customers' current and potential needs (Macedo & Pinho, 2006:537; Warnaby & Finney, 2005:183). Organisations that implement a market-orientated approach tend also to follow a relationship marketing strategy, whereby they are continuously striving to establish relationships with donors by meeting customers' demands through the provision of customer value (Bennett, 2005:456). By adopting relationship marketing, NPOs are able to create a competitive advantage through increased loyalty from their existing donors (Jenkinson et al., 2005:80).

A key element of the study is the adoption of integrated marketing communication as a means to create a competitive advantage through differentiation and positioning (Jenkinson et al., 2005:80). As such NPOs rely on a number of elements to carry their message across to their target market: advertising, direct marketing, interactive/Internet marketing, sales promotions, publicity/public relations, and personal selling (Belch & Belch, 2009:18). These elements are creatively combined in order to optimise the communications of the NPO in establishing its identity and attracting donors (Belch & Belch, 2009:18; Jenkinson et al., 2005:80-81). A

definition of each communication element and how it is utilised from an NPO's point of view are outlined in table 1.

**Table 1: The marketing communication elements used by NPOs**

<b>COMMUNICATION ELEMENT</b>	<b>DEFINITION</b>	<b>FROM AN NPO POINT OF VIEW</b>
<b>Advertising</b>	A paid form of non-personal communication whereby an organisation, product, or service is promoted through a formal communication medium.	Advertising is used to inform and educate donors about the NPO's cause, to persuade donors to support the NPO, and to remind donors of the NPO's need for support.
<b>Direct marketing</b>	An interactive, database-driven element that enables marketers to communicate directly with their target markets in order to generate a response directly from these markets.	NPO marketers prefer using direct marketing in the form of direct mail rather than telemarketing, to promote fundraising initiatives and special events.
<b>Interactive/Internet marketing</b>	An interactive form of communication whereby individuals are able to participate and modify the form and content of the information they receive.	Advertising on the Internet allows NPOs to reach larger and younger target markets and to receive donations from them at any time.
<b>Sales promotions</b>	Short-term activities that provide extra incentives to stakeholders to encourage them to make sales, to purchase products or to make donations.	Sales promotions are not extensively used in the NPO environment.
<b>Public Relations (PR) and publicity</b>	While publicity is the unpaid, non-personal communication about an organisation, product, service or idea, PR refers to the management function in which public attitudes are evaluated and activities are initiated to foster understanding and acceptance from the public.	NPOs are starting to assign relevant PR tasks to an individual (i.e. a PRO) whose main responsibility is protecting and enhancing the organisation's reputation and also finding and creating favourable news about the organisation, and getting the message to the relevant media.
<b>Personal marketing</b>	A form of marketing whereby an organisation communicates on a one-to-one basis with the intended target audience in an attempt to persuade it to purchase a product or make a donation.	This is a useful technique for fundraising, lobbying, recruiting volunteers, and for the promotion of events and products in a gift shop, on a website, or in a catalogue.

**Sources:** Andreasen & Kotler, 2003:441,448-449,456,469-470; Belch & Belch, 2009:20,22-23,25,559; Bennett, 2006:348; Bennett & Barkensjo, 2005:126; Faulkner & Kennedy, 2008:471; Illingworth et al., 2002:292; Ouwersloot & Duncan, 2008:10-11; Pinho & Macedo, 2006:175; Pollach, 2005:286.

No matter which one or combination of these marketing communication elements are used, the channel, message and source involved in each play a crucial role when communicating with potential donors (Hawkins & Mothersbaugh, 2010:407). Marketers can select between varieties of media channels to communicate their message: television, radio, magazines, newspapers, outdoor media (including posters, billboards, signs, etc.), direct mail, and interactive channels

(websites and mobile marketing) (Andreasen & Kotler, 2003:442; Belch & Belch, 2009:344). The combination of media to use is often a difficult decision to make and marketers usually have to engage in a trade-off between the strengths and limitations of each medium (Belch & Belch, 2009:317).

The manner in which a message is presented plays an important role in determining its effectiveness (Belch & Belch, 2009:192). As such, marketers are not only concerned about the content of the message, but also how the message is structured (i.e. one-sided vs. two-sided, positive vs. negative framing, verbal vs. visual message) and the appeal that is used (i.e. fear, humorous, comparative, emotional, value-expressive or utilitarian appeal) (Belch & Belch, 2009:192; Hawkins & Mothersbaugh, 2010:410). Lastly, the communication source refers to the person who delivers the message and can typically include a person, an animated character, or an organisation (Hawkins & Mothersbaugh, 2010:407). Marketers are careful when selecting the right communication source to use in their strategies, and are usually on the lookout for communication sources whose characteristics are in line with their image (Belch & Belch, 2009:178).

### **Consumer preferences**

Consumer preferences are seen as individuals' attitudes towards one object in relation to their attitudes towards another object (Blackwell et al., 2006:400). Attitudes towards objects are defined as an individual's evaluations of all the relevant actions and contexts associated with the object, which can include products, brands, advertisements, or even the retail outlets they visit. (Arnould, Price & Zinkhan, 2002:467). However, a positive attitude towards a product, for example, does not necessarily mean that the product will be purchased, since a consumer might like one product more than another (Blackwell et al., 2006:400). As such, attitudes towards objects are often measured in terms of preferences, i.e. whether a respondent prefers one product over another, or radio over television as possible media channels (Blackwell et al., 2006:400).

### **Generational theory**

Generation theory adds value to the marketing discipline in a number of ways, including serving as a basis for segmentation, explaining consumer behaviour and decision making processes and



influencing the marketing strategy of an organisation. Understanding the differences between the generations enables organisations to develop better products and to compile a marketing communication plan that is better able to meet the unique needs of the generation, and for the purpose of this study, Baby Boomers, Generation X and Generation Y more specifically (Blackwell et al., 2006:245; Dias, 2003:78,79,85,86; Macchiette & Roy, 2001:265,266; Roberts & Manolis, 2000:481).

Born between 1946 and 1964, Baby Boomers prefer supporting causes that they are related to, including religious organisations, their children's educational institutions, art organisations as well as health-related NPOs (Bakewell & Mitchell, 2003:99; Hawkins & Mothersbaugh, 2010:127-128; Roberts & Manolis, 2000:481,482). From a marketing perspective, Roberts & Manolis (2000:484) suggest that marketers should move away from image-oriented advertisements to information-intensive advertisements in which the benefits of the product are highlighted. They prefer endorsers to be from their own generation, and nostalgic music from the 'sixties and 'seventies may lead to favourable attitudes towards advertisements (Codrington & Grant-Marshall, 2005:186). Although Baby Boomers are increasingly starting to search the Internet, the traditional media, particularly television, still remain a key medium in reaching this generation (Cheung, Harker & Harker, 2008:138).

The members of Generation X were born between 1965 and 1976 (Bakewell & Mitchell, 2003:99; Hawkins & Mothersbaugh, 2010:129,131; Roberts & Manolis, 2000:481). In terms of the NPO environment, Generation X prefers supporting causes linked to the broader community, such as hunger, homelessness, violence and environmental causes (Codrington & Grant-Marshall, 2005:52; Nichols, 2004:165, 167). From a marketing communication perspective, they prefer advertisements that are radical, against the system, and that are customised to their needs (Dias, 2003:86; Hawkins & Mothersbaugh, 2010:131). They like slice-of-life advertisements that tell a story and entertain (Codrington & Grant-Marshall, 2005:176). Generation X is regarded as media-savvy and as a result marketers realise that they can't use traditional media to reach this generation, but have to turn their attention to other more advanced technologies, such as satellite television and the Internet (Hawkins & Mothersbaugh, 2010:130; Roberts & Manolis, 2000:482,483).

The individuals belonging to Generation Y were born between 1977 and 1994 (Bakewell & Mitchell, 2003:99; Hawkins & Mothersbaugh, 2010:132,133). They are very active in their communities through recycling, volunteering, educating friends and family about social and environmental causes, and donating money (Burns, Reid, Toncar, Anderson & Wells, 2008:100,103). Similarly to Generation X, they also prefer supporting NPOs surrounding the broader community and social problems (Nichols, 2004:165). Traditional advertisements are not working for this younger generation, as they are pessimistic about advertisements and see through 'marketing hype' (Belch & Belch, 2009:15; Codrington & Grant-Marshall, 2005:177; Hawkins & Mothersbaugh, 2010:133). As such, marketers should turn their attention to more creative strategies and should place advertisements in suitable media, including appropriate Internet sites, television and radio programmes, and magazines (Hawkins & Mothersbaugh, 2010:132). In addition, marketers are increasingly turning their attention to special events, competitions, sponsorships, and public relations (i.e. creating a 'buzz') as a means to target this group (Cheung et al., 2008:135; Hawkins & Mothersbaugh, 2010:133).

## **5. RESEARCH METHODOLOGY**

This study made use of both exploratory and descriptive research. In terms of the exploratory research, a secondary data analysis was done along with five informal expert surveys conducted with the marketing or fundraising managers of five different types of NPOs situated in Gauteng. For the descriptive research, a structured self-administered questionnaire was designed and pretested amongst the experts who participated in the expert surveys, as well as amongst a representative sample of 30 respondents. Based on the feedback and results obtained, the questionnaire was finalised and comprised of several sections, including the qualifying questions, demographics, and most notably for this study, the preferences towards the marketing communication activities of NPOs.

Once the questionnaire was finalised it was sent out to the target population who included all Baby Boomers (i.e. individuals born between 1946 and 1964), Generation X (i.e. individuals born between 1965 and 1976), and Generation Y members (i.e. individuals born between 1977 and 1994) residing in Gauteng, who had supported an NPO in the previous year and who were

representative of the four major racial groups in South Africa (i.e. Black, Coloured, Indian and White). Quota sampling was used to divide the population into three quotas according to generation, while convenience sampling was used to fill each quota. Personal interviewing, in the form of in-home and intercept interviewing, was used to obtain the necessary data.

Based upon the literature review conducted, the following alternative hypotheses were formulated:

- **H<sub>1</sub>**: The generations differ significantly in their preferences towards the nature of marketing in the NPO sector.
- **H<sub>2</sub>**: The generations differ significantly in their preferences towards the marketing communication elements used by NPOs.
- **H<sub>3</sub>**: The generations differ significantly in their preferences towards the media channels used by NPOs.
- **H<sub>4</sub>**: The generations differ significantly in their preferences towards the marketing messages used by NPOs.
- **H<sub>5</sub>**: The generations differ significantly in their preferences towards the communication sources used by NPOs.

Once the data was obtained, the statistical package SPSS was used to analyse the descriptive results and to conduct the one-way ANOVA, which measured the differences between the mean scores of the three generations (Malhotra, 2007:505), for hypothesis testing. Based on the results obtained, a number of main findings and recommendations were formulated to address the secondary objectives.

## **6. RESULTS/FINDINGS**

### **Sample profile**

Although a sample size of 200 respondents per generation was proposed, in the end 238 (119%) Generation Y, 183 (91.5%) Generation X and 181 (90.5%) Baby Boomers participated in the study. This led to a total of 602 useable questionnaires.

## Preferences towards the marketing communication activities of NPOs

This section of the questionnaire investigated respondents' preferences towards the marketing communication activities of NPOs. This section was divided into a number of sub-sections, including sections on the nature of the marketing done by NPOs (the results for this are presented in Table 2), on the marketing communication elements that NPOs use (Table 3), on the media channels that NPOs use (Table 4), on factors pertaining to the marketing messages of NPOs (Table 5), and on the communication sources used by NPOs (Table 6). Each of these sub-sections included a number of statements that the respondents had to evaluate on a 5-point Likert scale, where 1 was 'strongly disagree' and 5 was 'strongly agree'. The results are provided for *all* respondents, while specific differences between the three generations are addressed in the hypothesis testing.

The first sub-section of this section of the questionnaire provided a number of statements regarding the nature of marketing in the NPO sector.

**Table 2: Preferences regarding the nature of marketing in the NPO sector**

STATEMENTS	N	MEAN	LOW-BOX SCORE	TOP-BOX SCORE	STANDARD DEVIATION
NPOs should show that they are different from other NPOs	596	3.56	7.6	27.0	1.187
NPOs should provide me with feedback on what has been done with the support that they received	601	3.87	6.2	36.3	1.151
NPOs should give me options of how I can support them	598	3.91	5.2	37.0	1.106
NPOs should ask me how I would like to support them	594	3.76	6.1	31.3	1.148
NPOs should build long-term relationships with me	592	3.49	10.8	26.0	1.261
NPOs should continuously maintain communication with me	596	3.39	10.6	22.8	1.258
NPOs should allow me to give feedback on my experience with them	599	3.60	9.3	28.7	1.245
NPOs should continuously involve me in new and different ways	599	3.42	8.3	22.2	1.188
Marketing helps me to make more intelligent decisions when choosing an NPO to support	600	3.54	8.7	28.8	1.212
Marketing helps to increase my knowledge of the different types of NPOs	601	3.79	4.7	30.6	1.096
Marketing improves my image of NPOs	599	3.59	10.7	29.7	1.276

Although the final mean scores only ranged between 3.39 and 3.91, respondents tended to have a more positive preference towards the statements ‘NPOs should give me options of how I can support them’ (mean = 3.91), ‘NPOs should provide me with feedback on what has been done with the support that they received’ (mean = 3.87), and ‘Marketing helps to increase my knowledge of the different types of NPOs’ (mean = 3.79). The statements that elicited the least enthusiasm include: ‘NPOs should build long-term relationships with me’ (mean = 3.49), ‘NPOs should continuously involve me in new and different ways’ (mean = 3.42), and ‘NPOs should continuously maintain communication with me’ (mean = 3.39).

Table 3 provides the results for the list of statements contained in the second sub-section which deals with the various marketing communication elements that NPOs use to communicate with.

**Table 3: Preferences towards the marketing communication elements used by NPOs**

STATEMENTS	N	MEAN	LOW-BOX SCORE	TOP-BOX SCORE	STANDARD DEVIATION
<b>NPOs should use the following marketing tools to convince me to support them:</b>					
Place an advertisement	600	3.60	8.8	30.3	1.261
Hand out brochures	595	3.59	8.4	27.6	1.216
Communicate directly with me (for example: direct mail)	596	3.30	15.9	23.5	1.368
Phone me and ask for my support	598	2.68	29.8	14.7	1.408
Use the NPO’s website	594	3.79	5.1	32.5	1.127
Use online fundraising appeals	591	3.48	8.3	23.7	1.208
Use social networks (for example: MXit, Facebook and Twitter)	592	3.36	16.2	27.2	1.407
Offer me something in return	590	1.90	57.6	6.8	1.259
Place an article in newspapers or magazines	595	3.68	7.2	28.7	1.170
Conduct interviews on television or radio	595	3.73	6.6	29.7	1.155
Invite me to special events	594	3.10	17.0	18.5	1.337
Invite me to open days	597	3.45	10.7	24.3	1.253
Convey information at exhibitions	593	3.62	5.2	26.0	1.127
Use a fundraiser to personally ask for my support	595	3.00	18.2	15.8	1.316
Word-of-mouth from family or friends	591	3.80	4.9	33.2	1.115
Contribute a small percentage for a product purchased (e.g.: Clover donating R0,50 to CHOC for every yoghurt they sell)	591	4.18	4.1	53.8	1.089

The respondents tended to prefer the following statements: ‘Contribute a small percentage for a product purchased’ (mean = 4.18), ‘Word-of-mouth from family or friends’ (mean = 3.80), and ‘Use the NPO’s website’ (mean = 3.79). However, respondents were not so favourably inclined

to the statements ‘Use a fundraiser to personally ask for my support’ (mean = 3.00), ‘Phone me and ask for my support’ (mean = 2.68), and ‘Offer me something in return’ (mean = 1.90).

Table 4 summarises the results for the third sub-section: the media channels that NPOs can use to communicate.

**Table 4: Preferences towards the media channels used by NPOs**

STATEMENTS	N	MEAN	LOW-BOX SCORE	TOP-BOX SCORE	STANDARD DEVIATION
<b>NPOs should use the following media channels to communicate with me:</b>					
Television	597	3.90	6.9	41.0	1.203
Radio	597	3.95	5.0	39.2	1.093
Magazines	593	3.84	5.2	36.1	1.143
Newspapers	596	3.93	6.0	40.8	1.163
Newsletters	594	3.74	8.9	34.8	1.258
Outdoor media (for example: billboards and posters)	594	3.62	8.4	33.2	1.269
Direct mail	595	3.25	17.5	24.9	1.401
Catalogues	586	3.21	13.7	20.5	1.301
Telephone	590	2.76	28.6	18.1	1.462
Audio-visual material (for example: CDs or DVDs)	594	2.96	20.9	17.0	1.362
Internet	593	3.73	8.8	34.2	1.244
E-mail	591	3.61	10.8	32.3	1.311
SMS messages	598	3.30	18.9	28.8	1.453

It is evident that respondents preferred the more traditional media, including ‘Radio’ (mean = 3.95), ‘Newspapers’ (mean = 3.93), ‘Television’ (mean = 3.90), and ‘Magazines’ (mean = 3.84) – and shied away from ‘Catalogues’ (mean = 3.21), ‘Audio-visual material’ (mean = 2.96), and ‘Telephone’ (mean = 2.76).

Table 5 presents the results of the sub-section measuring the respondents’ preferences towards the marketing messages that NPOs use.

**Table 5: Preferences towards the marketing messages used by NPOs**

STATEMENTS	N	MEAN	LOW-BOX SCORE	TOP-BOX SCORE	STANDARD DEVIATION
<b>The NPOs marketing message should:</b>					
Show the negative consequences involved if people do not support the NPO	591	3.19	20.8	25.5	1.462
Be funny	591	2.52	31.5	10.3	1.327

Take a logical approach conveying facts about the NPO	593	3.91	3.0	33.1	1.017
Create an emotion within me (for example: joy, hope, anger or shame)	590	3.63	10.0	31.2	1.261
Make me feel guilty for not supporting the NPO	595	2.32	41.8	10.9	1.392
Show shocking information	594	2.82	26.3	18.4	1.445
Include a typical supporter of an NPO	597	3.22	15.9	19.9	1.325
Include a typical beneficiary of an NPO	596	3.52	10.4	28.9	1.279
Play music that I like in the background	593	2.56	30.0	10.3	1.320
Contain <u>IMAGES</u> that attract my attention	599	3.49	11.9	26.4	1.288
Contain relevant <u>WORDS</u> that attract my attention	590	3.65	8.5	29.7	1.216
State both the benefits and costs involved when supporting an NPO	596	3.64	8.7	29.9	1.226
Be a positive message rather than a negative message	597	4.28	1.5	53.1	0.923
Be customised according to my unique needs	594	2.89	21.0	14.8	1.331

The respondents indicated a preference towards the statements ‘Be a positive message rather than a negative message’ (mean = 4.28), ‘Take a logical approach conveying facts about the NPO’ (mean = 3.91), and ‘Contain relevant WORDS that attract my attention’ (mean = 3.65). On the other hand, the statements ‘Play music that I like in the background’ (mean = 2.56), ‘Be funny’ (mean = 2.52) and ‘Make me feel guilty for not supporting the NPO’ (mean = 2.32) were not so favourably received.

The last table in this section, Table 6, gives the results of the fifth sub-section: respondents’ preferences towards the communication sources used by NPOs.

**Table 6: Preferences towards the communication sources used by NPOs**

STATEMENTS	N	MEAN	LOW-BOX SCORE	TOP-BOX SCORE	STANDARD DEVIATION
The message of the NPO should be communicated by:					
The NPO itself	602	4.21	3.3	51.5	1.014
A celebrity	598	3.02	23.1	19.9	1.445
An animated character	597	2.57	31.0	11.1	1.349
A respected expert in the field	600	3.81	6.7	34.5	1.173
A typical supporter of the NPO	597	3.68	8.4	32.2	1.231
A person who benefits from the support (i.e. a beneficiary)	602	4.01	7.6	50.5	1.255

The respondents were most favourably inclined to messages that were communicated by ‘The NPO itself’ (mean = 4.21), or by ‘A person who benefits from the support (i.e. a beneficiary)’

(mean = 4.01). The respondents were less favourably inclined towards 'A celebrity' (mean = 3.02), and 'An animated character' (mean = 2.57) as possible sources to be used by NPOs.

### **Validity and reliability**

For the purposes of this study content validity was examined to determine whether the questionnaire measured what it was supposed to measure. The questionnaire was pretested amongst the five NPO marketing or fundraising managers who partook in the expert surveys, as well as with a representative sample of 30 respondents to ensure content validity. Since the study measured the respondents' preferences towards the various individual marketing communication activities, measurements sets containing a number of highly correlated statements to measure constructs were not developed and a reliability analysis was therefore not conducted.

### **Hypothesis testing**

Based upon the normality of the distribution of results and the adequate sample size realised in this study a parametric test, namely the one-way ANOVA was used to uncover whether significant differences exist between the mean scores of the three generations. It should be noted that the main findings formulated for this study *only* report on the cases where *significant* differences exist, and, if a particular generation is not reported on, no significant difference exists between this particular generation and the other two generations.

#### ***Hypothesis 1***

The first hypothesis tests whether the generations differ significantly in terms of their preferences towards the nature of marketing in the NPO sector. The results of the one-way ANOVA test indicate that:

- There is a significant difference between the means of the generations when it comes to the statement 'NPOs should allow me to give feedback on my experience with them' (p-value = 0.016). According to Dunnett's T3 post-hoc test, there is a significant difference between Generation Y (mean = 3.73) and Baby Boomers (mean = 3.38).
- With regards to the other preference statements, significant differences between the generations were not uncovered.



As a result, hypothesis 1 is partially accepted in relation to the statement ‘NPOs should allow me to give feedback on my experience with them’, with Generation Y preferring it more than Baby Boomers.

### ***Hypothesis 2***

Hypothesis 2 tests whether the generations differ significantly in their preferences towards the marketing communication elements used by NPOs. Based on the results of the one-way ANOVA test, significant differences between the three generations are evident in the following instances:

- There is a significant difference between the means of the generations when it comes to the statement ‘Use the NPO’s website’ (p-value = 0.021). According to Scheffe’s post-hoc test there is a significant difference between Generation Y (mean = 3.92) and Baby Boomers (mean = 3.61).
- There is a significant difference between the means of the generations when it comes to the statement ‘Use online fundraising appeals’ (p-value = 0.000). Scheffe’s post-hoc test indicates that there are significant differences between Generation Y (mean = 3.65) and Baby Boomers (mean = 3.18), and between Generation X (mean = 3.57) and Baby Boomers (mean = 3.18).
- There is a significant difference between the means of the generations when it comes to the statement ‘Use social networks’ (p-value = 0.000). Scheffe’s post-hoc test indicates that there are significant differences between Generation Y (mean = 3.68) and Baby Boomers (mean = 2.87), and between Generation X (mean = 3.43) and Baby Boomers (mean = 2.87).
- There is a significant difference between the means of the generations when it comes to the statement ‘Place an article in newspapers or magazines’ (p-value = 0.010). According to Scheffe’s post-hoc test a significant difference exists between Generation Y (mean = 3.53) and Baby Boomers (mean = 3.88).
- There is a significant difference between the means of the generations when it comes to the statement ‘Invite me to special events’ (p-value = 0.037). The homogenous subset table classified the generations into two different subsets, meaning that their means are significantly different. As a result, there is a significant difference between Generation X (mean = 3.22) and Baby Boomers (mean = 2.89).

Based on the results, hypothesis 2 is partially accepted when it comes to the statements, ‘Use the NPO’s website’, ‘Use online fundraising appeals’, ‘Use social networks’, ‘Place an article in newspapers or magazines’, and ‘Invite me to special events’. As such, the main finding states that Generation Y and Generation X prefer online fundraising appeals and social networks as marketing communication elements used by NPOs in relation to Baby Boomers. In addition, Generation Y prefers the NPOs’ websites above Baby Boomers, while Generation X shows preference to special events in relation to Baby Boomers – and Baby Boomers prefer articles placed in newspapers and magazines.

### ***Hypothesis 3***

The third hypothesis tests whether the generations differ significantly in their preferences towards the media channels used by NPOs. As a result, the one-way ANOVA test indicates that significant differences are evident for the following media channels:

- There is a significant difference between the means of the generations when it comes to the ‘Internet’ as a media channel (p-value = 0.000). According to Dunnett’s T3 post-hoc test, significant differences exist between Generation Y (mean = 3.89) and Baby Boomers (mean = 3.39), as well as between Generation X (mean = 3.84) and Baby Boomers (mean = 3.39).
- There is a significant difference between the means of the generations when it comes to ‘E-mail’ as a media channel (p-value = 0.004). Based on Dunnett’s T3 post-hoc test there is a significant difference between Generation X (mean = 3.86) and Baby Boomers (mean = 3.40).
- There is a significant difference between the means of the generations when it comes to ‘SMS messages’ as a media channel (p-value = 0.017). According to Scheffe’s post-hoc test there is a significant difference between Generation Y (mean = 3.18) and Generation X (mean = 3.56).

As a result, hypothesis 3 is partially accepted when it comes to the ‘Internet’, ‘E-mail messages’ and ‘SMS messages’ as media channels used by NPOs. Thus, the main finding states that Generation Y and Generation X prefer the Internet as a media channel. Generation X shows a

preference for e-mail messages in relation to Baby Boomers and a preference towards SMS messages in relation to Generation Y.

#### *Hypothesis 4*

The aim of hypothesis 4 is to test whether the generations differ significantly in their preferences towards the marketing messages used by NPOs. Based on the results of the one-way ANOVA test significant differences between the three generations are evident in the following instances:

- There is a significant difference between the means of the generations when it comes to the statement 'Create an emotion within me' (p-value = 0.004). According to Dunnett's T3 post-hoc test, there is a significant difference between Generation Y (mean = 3.81) and Baby Boomers (mean = 3.40).
- There is a significant difference between the means of the generations when it comes to the statement 'Show shocking information' (p-value = 0.004). Based on Scheffe's post-hoc test, there is a significant difference between Generation Y (mean = 3.06) and Baby Boomers (mean = 2.62).
- There is a significant difference between the means of the generations when it comes to the statement 'Play music that I like in the background' (p-value = 0.023). According to Scheffe's post-hoc test, there is a significant difference between Generation Y (mean = 2.70) and Baby Boomers (mean = 2.34).
- There is a significant difference between the means of the generations when it comes to the statement 'Contain images that attract my attention' (p-value = 0.043). Scheffe's post-hoc test indicates that there is a significant difference between Generation Y (mean = 3.63) and Baby Boomers (mean = 3.31).

Hypothesis 4 is thus partially accepted in relation to the statements 'Create an emotion within me', 'Show shocking information', 'Play music that I like in the background' and 'Contain images that attract my attention'. The main finding therefore states that, in relation to Baby Boomers, Generation Y prefers marketing messages of NPOs that create an emotion within

them, show information that will shock them, play music that they like, and contain images that attract their attention.

### ***Hypothesis 5***

Hypothesis 5 states that the generations differ significantly in their preferences towards the communication sources used by NPOs. The results of the one-way ANOVA test show no significant differences between the generations when it comes to their preferences towards the communication sources used by NPOs. Hypothesis 5 is therefore rejected.

## **7. CONCLUSIONS**

In terms of the generations' preferences towards the nature of marketing done in the NPO sector, the respondents generally prefer NPOs that provide them with different options in terms of how they can support the NPO. They are also positive towards NPOs that provide feedback about what has been done with the support they received, and about marketing as a means to increase their knowledge of the different types of NPOs. As for whether or not significant differences exist between the three generations and their preferences towards the nature of marketing in the NPO sector, it is evident that Generation Y, in contrast to Baby Boomers, prefers NPOs that allow them to provide feedback on their experience with the NPO.

When it comes to the marketing communication elements that NPOs can use to convince the different generations to support them, respondents overall show preference towards making small contributions for a product purchased, towards word-of-mouth from family or friends, and towards websites. In addition, Generation X and Generation Y prefer online fundraising appeals and social networks. Furthermore, Generation Y prefers NPOs' websites, while Generation X prefers special events. Also, Baby Boomers show a strong preference towards articles placed in newspapers and magazines.

In terms of the media channels that NPOs can use to communicate with them, the respondents overall have a preference towards radio, newspapers, television, and magazines. When

comparing the three generations' preferences towards media channels, Generation Y and Generation X prefer the Internet. Additionally Generation X prefers e-mail messages in relation to Baby Boomers, and sms messages in relation to Generation Y.

As for the marketing messages used by NPOs, the respondents overall prefer the NPO's marketing message if it is positive rather than negative, if the message takes a logical approach in conveying information about the NPO, and if the message contains words that attract attention. When comparing the generations' preferences towards marketing messages, Generation Y, compared to Baby Boomers, prefer the marketing messages of NPOs that create an emotion, that show information that will shock them, that use music which is popular to Generation Y listeners, and that contain images which attract their attention.

Lastly, while there are no significant differences between the three generations in terms of the communication sources that NPOs might use, the respondents overall have a preference towards the NPO itself as the source – and, to a slightly lesser degree, if a beneficiary of the NPO is the source.

## **8. RECOMMENDATIONS**

This study set out to obtain a better understanding of the preferences of the different generations towards the marketing communication activities of NPOs. More specifically, the generations' preferences were measured towards the nature of marketing done by NPOs, the marketing communication elements, media channels, marketing messages and communication sources used by NPOs. The differences uncovered indicate that the different generations should be approached in different ways by NPOs, in terms of the marketing communication elements available, the media channels used and the marketing message that is communicated. In terms of similarities, all three generations indicated that they prefer the NPO to be the communication source used.

Based on the differences between the generations, a number of specific recommendations are formulated:

- When approaching the different generations, NPOs should communicate the different ways in which the generations can get involved with the NPO.
- Radio is the best way for NPOs to communicate with all the generations.
- NPOs should convey a positive message rather than a negative one.
- The best communication source to use in marketing messages is the NPO itself.
- NPOs should establish cause-related campaigns by identifying relevant products that they can link with, whereby a proportion of the sale of the product is donated to the NPO.
- When targeting Generation Y, NPOs should provide an opportunity and platform for feedback on their experiences with the NPO.
- NPOs should use online fundraising appeals and social networks when targeting Generation Y and Generation X. In addition, NPOs should use their websites when targeting Generation Y, and utilise special events when targeting Generation X. Articles in newspapers and magazines are best for targeting Baby Boomers.
- NPOs should communicate with Generation Y and Generation X via the Internet; e-mail and SMS messages may also be used by NPOs when communicating with Generation X.
- When communicating with Generation Y, the marketing messages used by NPOs should create an emotion, show shocking information, play music appropriate to Generation Y, and contain images that attract their attention.

## **9. LIMITATIONS AND FUTURE RESEARCH**

In terms of the limitations of the study, very little research has been done on the marketing communication activities of NPOs in general, which meant that the researcher had to rely heavily on work done on the marketing communication activities of profit-driven organisations. Furthermore, the majority of the research on generation theory is based on the events that the different generations experienced while growing up in America and the UK, rather than in South Africa. In terms of limitations relating to the empirical research, the researcher did not obtain an

equal split of respondents in terms of generation and racial group, as was initially planned. In addition, time and budget constraints led to a small sample being used.

In terms of future research, it is suggested that a similar study be done amongst people who do not support NPOs in order to find out how NPOs could market to them in order to obtain their support. In addition, a study can be done to determine which one of the different marketing communications strategies employed gives the highest return on investment and are the most effective to use by NPOs.

## **10. CONCLUDING REMARKS**

In summary, NPOs are seeing a decline in donations from their older donors and thus need to shift their efforts towards the younger generations. Consequently, NPOs have to develop marketing strategies to attract the younger generations as donors and volunteers. The purpose of this study is to obtain a better understanding of current donors' preferences towards the marketing communication activities of NPOs and to use this insight to provide guidance to NPOs about how they can adapt their marketing communication strategies when communicating with the three different generations. In the end, the results reveal a number of similarities and differences between the generations' preferences towards the marketing communication activities of NPOs. On the basis of these, the study makes recommendations as to how NPOs should adapt their marketing communication strategies when addressing the different generations.

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# **CONSUMERS' AWARENESS, ATTITUDE AND BEHAVIOUR TOWARDS ENERGY EFFICIENCY**

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**KEY WORDS:** Consumer behaviour, Energy efficiency, Eskom

## **CONSUMERS' AWARENESS, ATTITUDE AND BEHAVIOUR TOWARDS ENERGY EFFICIENCY**

### **ABSTRACT**

If South Africans do not become energy efficient, then the country's future economic, environmental and social sustainability will be severely jeopardised. The emissions of CO<sub>2</sub> into the atmosphere have led to a significant impact on the temperature rise on the planet. The energy sector is one of the contributors towards the emission of gases, largely due to production and consumption patterns of electricity. Due to supply constraints in South Africa, becoming energy efficient has become a vital behaviour to ensure a stable electrical network.

The purpose of this research was to investigate South African consumers' awareness, attitude and behaviour towards energy efficiency. This was an exploratory study, using data collected from 163 respondents. The main finding of the research is that there is a reasonable level of awareness among consumers. However, attitude and behaviour do not reflect the same level, and more work is required from both government and industry to make energy efficiency a household action. A detailed strategy needs to be developed to ensure a holistic approach to energy efficiency, where information becomes knowledge, which in turn becomes a lifestyle.

## INTRODUCTION/RESEARCH PROBLEM

South Africa like many other countries is facing a serious issue with the supply of energy. The Primary source of energy supply within the country is Eskom. Eskom is the biggest power utility on the African continent and is charged with supplying electricity primarily to South Africa but it has extended its supply footprint to include other African nations particularly the members of the South African Development Community (SADC). The business has over 44,000 employees represented in the main business areas of Generation, Transmission and Distribution. Currently, it has a generating capacity of 38,000MW from 24 Power stations in South Africa. Eskom is the world's fourth largest power utility in terms of sales volume and normal capacity (Eskom Annual Report, 2008). Capacity constraints due to aging infrastructure and growing demand brought on by an expanding economy has resulted in the Eskom power grid being severely challenged to meet the electricity demands of South Africa - particularly over the last few years. In order to address the capacity constraints Eskom has identified the need for a capital expenditure program in excess of 1.5 Trillion Rand over the next 20 years for the development of a sustainable energy solution. In addition, to manage the capacity constraints in the short term, Eskom has embarked on a number of strategies aimed at demand side management and energy efficiency solutions, to minimise the requirement for load shedding that was implemented in 2008. This energy efficiency drive will also assist in the reduction of CO<sub>2</sub> emissions into the atmosphere, which arise due to the high percentage of coal-fired power stations.

In addition, while awareness of demand side initiatives might be high and intentions of consumers favourable towards energy efficiency, this might not be reflected in actual purchasing behaviour (Truffer, Markard and Wustenhagen, 2001). Hence, the research problem statement is: how can a better understanding of consumer awareness, attitudes and behaviour towards energy efficiency be used to develop initiatives to change behaviour towards greater utilisation of energy efficiency devices and methods? Failure to change behaviour could lead to severe future consequences in energy and environmental sustainability.

The objectives of this exploratory study are consequently as follows:

1. to determine the present level of awareness among South African consumers on energy efficiency measures;

2. to determine the present attitude of South African consumers towards energy efficiency;
3. to determine the present behaviour of South African consumers towards energy efficiency;
4. to ascertain the drivers that would influence consumers' behaviour to make a change towards energy efficiency.

## **LITERATURE REVIEW**

### **Energy efficiency in South Africa**

South Africa has one of the cheapest electricity costs in the world, with rates at around 4 US cents per kWhr, versus Canada at 7 cents, USA at nearly 10 cents, and Italy at 20 cents in 2008 (NUS Consulting Group International Electricity Survey and Cost Comparison, in Eskom Annual Report, 2008). However, the government has recognised the need for conservation of energy: the DME (Department of Minerals and Energy) (2005) energy efficiency policy has identified various goals for the implementation of an energy efficiency strategy for South Africa:

- Social sustainability: to improve the health of the nation, create jobs, and alleviate energy poverty;
- Environmental sustainability: to reduce environmental pollutions, and to reduce CO<sub>2</sub> emissions;
- Economic sustainability: to improve industrial competitiveness, enhance energy security, and reduce the necessity for additional power generation capacity.

Implementation of the energy efficiency programmes requires awareness and commitment among consumers. Acceleration of the market penetration of energy efficient technologies requires removing market distortions and institutional barriers that still hinder the economically efficient use of energy in the residential sector. The market barriers in the residential sector are largely due to the lack of information about energy use and related costs about technologies available to reduce energy use. Individual consumers do not have access to information on means of financing investments in general and energy efficiency technologies. They usually make day to day decisions of which energy is only a minor part and only moderately interested in energy bills (Unterwurzacher and McInnes, 1991).

Progress forward has been hindered by (DME, 2005):

- low energy pricing, therefore a small percentage of consumer expenditure,
- lack of knowledge and understanding of energy efficiency,
- institutional barriers and resistance to change,
- lack of investment confidence, to install costly energy efficiency devices, and
- the practice of “bounded rationality”, where consumers have imperfect information.

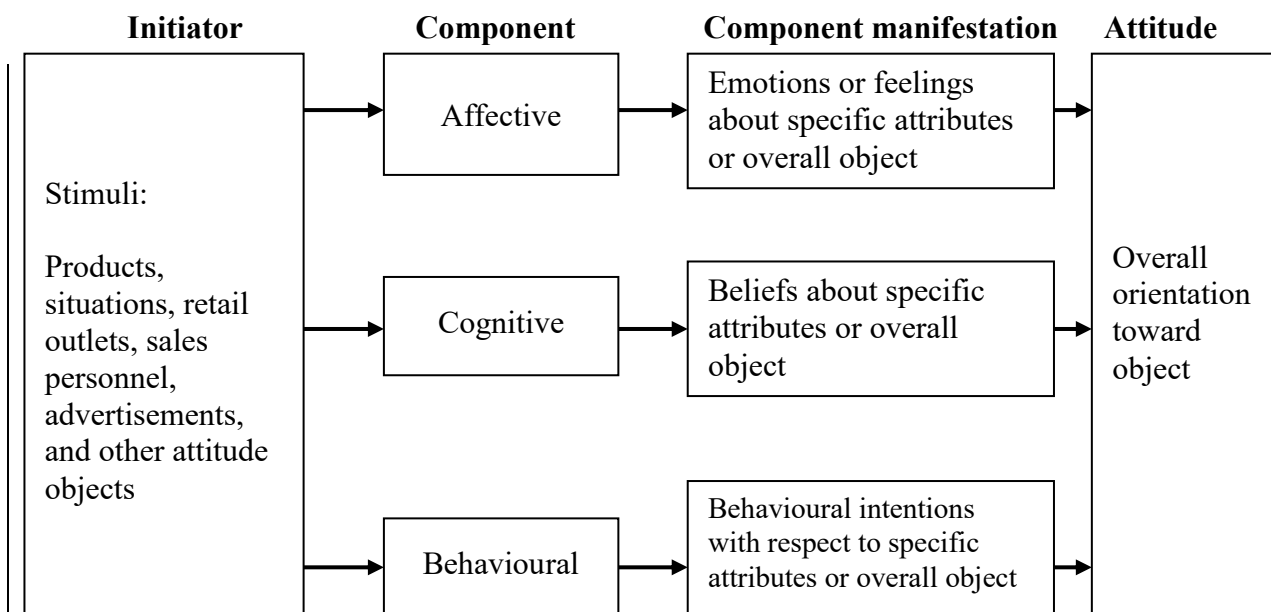
The residential sector is an important user of electricity, accounting for 17% of total electricity consumption in South Africa (Eskom Annual Report, 2008), and nearly 25% in the USA (Holt and Larson, 2008). Hence, energy efficiency measures would certainly assist in meeting Eskom’s objectives.

The effectiveness of demand side management depends on the consumer’s commitment to the initiatives. Consequently, it is important to understand consumers’ awareness, attitudes and behaviour towards energy efficiency, and what would change this behaviour. Some research into consumer attitudes towards energy efficiency has been conducted in developed countries (see Salmelo and Varho, 2006 (Finland); Hagler, 1999, (California, USA); Holt and Larson, 2008 (Florida, USA); Datamonitor, 2006 (Australia); Faiers, Cook and Neame, 2007 (UK)). For example, the Consumer Federation of America conducted a nationwide survey to understand the public’s knowledge and opinions about home energy consumption and efficiency (Cooper, 2011). The survey revealed high awareness (95%) of the importance of energy efficiency, overwhelming belief in the benefits of improving appliance energy efficiency, and strong support for appliance efficiency standards. However, little research has been conducted in South Africa.

### **Consumer attitudes**

Attitudes are relatively consistent evaluations, feelings and tendencies that a person has towards an object or an idea. In marketing terms, attitudes are learned predispositions to behave in a consistently favourable or unfavourable manner, and consequently cannot be observed, and are therefore inferred by what a person says or do (Schiffman and Kanuk, 2007). A consumer’s attitude towards a particular product could be due to direct experience with the product, input from peers, or exposure to advertising. Attitudes have three components: affect (feelings), behaviour (actions) and cognition (beliefs), as described in Figure 1:

**Figure 1: Attitude Components and Manifestations**



Source: Hawkins, Best and Coney, 2004: 388

The cognitive component consists of consumers' beliefs or knowledge about an object. These could be informational beliefs, associated with product attributes, or evaluative beliefs associated with product benefits. The affective component describes emotions towards the object, which could be based on general feelings or the result of evaluations of a product. The behavioural component represents the outcome of the cognitive and affective components, which could be manifested in purchasing or intending to purchase.

Attitudes perform four major functions (Cant, Brink and Brijball, 2006):

- utilitarian function: attitudes strive to maximise the rewards and minimise the punishments;
- ego-defensive function: attitudes protect consumers from basic truths or realities, to maintain their self-esteem;
- value-expressive function: attitudes give consumers an opportunity to express their feelings about the world, through their actions;
- knowledge function: attitudes serve as standards that help consumers to understand and provide meaning to their environment.

Thus attitudes are learned over time, and are critical inputs to understanding consumer behaviour, and the processes consumers go through to make purchasing decisions.



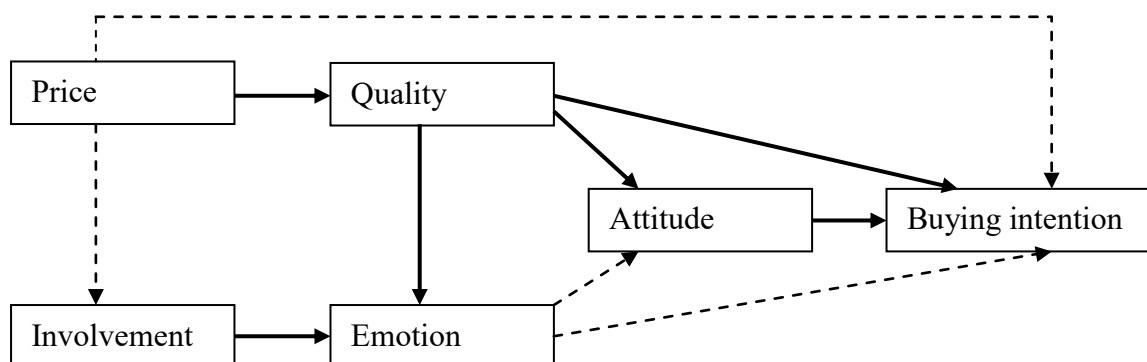
## Perspectives on consumer decision making

There are effectively four perspectives on consumer decision making (Hansen, 2005):

- the value perspective: where consumers are driven by the value they receive, as the trade-off between perceived benefits and perceived costs;
- the cue utilisation perspective: where consumers reduce risk by using cues such as product quality in low involvement decision making;
- the information processing perspective: where consumers conduct extensive evaluations and comparisons before reaching a reasoned decision, particularly with high involvement products;
- the emotional perspective: where consumers look for new experiences, then emotions are important factors in decision making.

Hansen (2005) tested an integrated framework combining these perspectives, as illustrated in Figure 2:

**Figure 2: Integrated framework of consumer decision making**



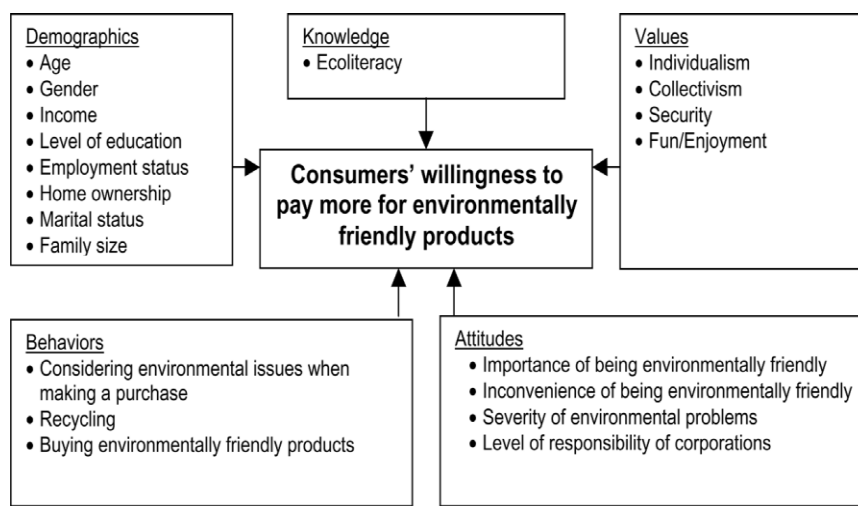
Source: Hansen, 2005: 423

The testing of this framework on 320 respondents and two types of high/low involvement and high/low price products substantiated the bold linkages in the above diagram, although the others (dashed linkages) are not discounted as they could be proved in other situations. The results supported the complexity of consumer decision making, and that cognitive and affective skills of consumers affect each other rather than being independent. Managers need to investigate consumer decision-making processes intensively, as these are complex and may involve a number of perspectives and constructs.

### Consumer behaviour for environmentally friendly products

Laroche, Bergeron and Barbaro-Forleo (2001) have identified the following factors that determine why consumers are willing to pay more for environmentally friendly products, which have similar associations with energy efficiency products, illustrated in Figure 3:

**Figure 3: Conceptual Framework of Consumer Behaviour**



Source: Laroche *et al.*, (2001)

Consumers' willingness to pay more for environmentally friendly products is thus influenced by demographic factors, knowledge, values, behavioural issues, and attitudes. Laroche *et al.*, (2001) found a relationship between willingness to pay for green products and the level of inconvenience, i.e. those willing to pay did not find it inconvenient. Consumers also perceive that it is very important to behave in an ecologically favourable way. Marketing of green products should stress society welfare, security and warm relations, as caring consumers show predisposition to be environmentally friendly.

Faiers *et al.*, (2007) cite that there are a number of factors that have influence over consumers' choices in respect to the use of energy. Consumer choice theory governs the choices that consumers make relative to their needs, and in a priority order. In addition, values, which are beliefs that an individual holds, generate a certain type of behaviour. Attitudes, or the way that an individual behaves or views towards an object, are also key determinants of environmentally conscious behaviour. However, Truffer *et al.*, (2001) showed that consumers do not always exhibit purchase behaviour according to their stated intentions: they found that

20% of consumers state a willingness to pay between 10 and 20% more for green power products, yet actual adoption is only 1%. Faiers *et al*, (2007) confirmed that while legislation seeks to promote energy efficiency in international countries, the rate at which energy efficient products are being adopted is not making significant impact towards the reduction of carbon emissions needed to meet the targets through the Kyoto protocol. Successful adoption to green energy only occurs when the availability of products is high, they are aggressively marketed, and are competitive with other energy products.

To improve their own judgement or increase their justification for decisions, individuals start to seek advice from social networks (Faiers *et al*, 2007). Nkomo (2005) found that rather than assuming economic rationality in purchasing, preferences of consumers are affected by choices of other members of society, so that the different utility functions of different households are interdependent.

As this is an exploratory study, this leads us to the following study objectives: to determine the present level of awareness, attitude and behaviour among South African consumers towards energy efficiency measures; and to determine the drivers that would influence consumers' behaviour to make a change towards energy efficiency.

## **RESEARCH METHODOLOGY**

The research design for this study was exploratory, as little research has been conducted in this area. This would normally imply a qualitative methodology; however, to increase the validity of the results and as the population is large, it was decided to conduct quantitative research. The research population comprises all South African consumers of electricity who have some influence over how they manage their household energy consumption. A convenience sample of 210 respondents was surveyed, which was conducted in malls and online, of which 163 completed surveys were suitable to use in the final analysis. While a random sample would have given more generalisable results, the sample size was large enough to perform the quantitative analyses, and would provide valid results. The measuring instrument was a structured questionnaire based on the CBEE baseline study on public awareness and attitudes towards energy efficiency by Hagler (1999). This was pilot tested on 10 respondents, which allowed correction of questions that were misunderstood. The questionnaire consisted of five sections: consumer demographics, consumer awareness

section of 16 questions, consumer attitudes section of 11 questions, consumer behaviour section, and consumer behavioural change section. Most of the questions, other than the demographics section, used a 5 point Likert scale.

The data from the questionnaires were analysed using several statistical analytical methods. The demographic data was analysed using descriptive statistics. The data from the Likert scale measurements of awareness, attitudes, behaviour and behavioural change were analysed using the distribution fitting algorithm (DFA) of Stacey (2005), which enables the analysis of interval data, as a preferred method to correspondence analysis. This method calculates the means and standard deviations of each statement rather than the respondent level data, enabling the statements to be compared to each other. The mean values as determined by DFA were compared to each statement in order to understand the level of awareness/attitude/behaviour/behavioural change. In addition, a Principle Component Factor Analysis was used to determine the different factors of attitude among South Africans, with the number of factors determined as those with an eigenvalue greater than 1. The statements with the highest loading ( $>0.4$ ) on each factor were identified, and used to name the factor. A K-means cluster analysis was used to identify potential relationships between the various clusters and the factors from the factor analysis. Cross tabulation was done on the clusters and demographic information to determine if there were any influences with respect to age, income, household size and level of knowledge.

## **RESULTS/FINDINGS**

The final 163 usable questionnaires represented a response rate of 54% of the 300 questionnaires that were distributed through emails and paper copies.

### **Demographics:**

Demographic analysis revealed the following:

- 62% of respondents were female, 38% male;
- 70% of the respondents were between the ages of 20 and 40;
- only 10% of the respondents came from the lower income groups.

The majority of the respondents are from Johannesburg, as most of the surveys were handed to people in the Johannesburg area. There was a relatively proportional spread of respondent race.

### Objective no. 1: Awareness of energy efficiency

The majority of respondents believed that they had a reasonable level of awareness. Only 23% believed they know very little about energy efficiency. The DFA analysis of awareness revealed the following, as indicated in Table 1:

**Table 1: Energy efficiency awareness statement measurement**

Energy Efficiency awareness statements	level
Compact fluorescent lamps	High
Turning off light bulbs and appliances help reduce chances of load shedding	High
Reducing temperature of hot water in geyser can save energy	High
Using shower instead if bathing makes a difference to save energy	Low
Switching off all Standby power equipment saves energy	High
Keeping lids on when cooking saves energy	Medium
Closing fridge quickly saves energy	Medium
Hot food should not be put straight into fridge as it consumes more energy	Medium
I can save energy by regularly defrosting my freezer	Medium
Operating washing machines and tumble dryer on full load saves energy	Medium
Lowering temperature on washing machines can save energy	Medium
Close curtains at dusk reduces heat transfer through windows	Medium
Geyser blanket makes a difference in saving energy	Medium
Ageing bulbs consume 10 to 15% more energy	Medium
lighting control detectors can save 25 to 50% of energy consumption	High
Low flow shower saves energy	Low

It can be deduced that a gap exists between the perceived level of awareness from the respondents and the results of the analysis, given the number of statements with a medium or low rating.

### Objective no. 2: Attitudes towards energy efficiency

The results of the DFA analysis showed that most respondents have a positive attitude towards saving energy, however, this needs to be compared with the actual behaviour to determine how effective the attitude is in practising energy efficiency at home. The factor analysis conducted provides greater insight into the attitude towards energy efficiency. The results of the principle component analysis showing eigenvalues after varimax rotation are given in Table 2:

**Table 2: Factor analysis table for attitude statements after varimax rotation**

No.	Eigenvalue	Individual Percent	Cumulative Percent	Scree Plot
1	2.420987	22.01	22.01	
2	1.56463	14.22	36.23	
3	1.201606	10.92	47.16	
4	1.377142	12.52	59.68	
5	0.926876	8.43	68.1	
6	0.751877	6.84	74.94	
7	0.713352	6.49	81.42	
8	0.620441	5.64	87.06	
9	0.534952	4.86	91.93	
10	0.49082	4.46	96.39	
11	0.397316	3.61	100	

Four factors meet the eigenvalue criteria of greater than 1, and also explain some 60% of the variance. The attitude statement loadings on each of the factors are given in Table 3:

**Table 3: Attitude statement loading on factors**

No	Statements	Factor1	Factor2	Factor3	Factor4
1	I am not very concerned about the amount of energy used in my home	0.704038	0.141151	0.354717	-0.30644
2	The household consumer is such a small part of the whole energy consumption picture that it really doesn't matter how a family uses energy	0.746113	0.020813	0.032768	-0.10997
3	My life is too busy to worry about making energy-related improvements in my home	0.670729	-0.16576	-0.01958	-0.12939
4	It is worth it to me for my household to use less energy in order to help preserve the environment	-0.46804	0.461277	0.176745	-0.30853
5	It is my right to use as much energy as I want, as long as I can pay for it	0.684425	-0.12657	-0.20456	-0.04473
6	Scarce energy supply will be a major problem in the future	0.02339	0.793029	0.135095	0.141764
7	Everyone should make a real effort to conserve energy even if they don't have to worry about the cost	-0.10805	0.768735	-0.14688	0.141223

8	There is very little I can do to reduce the amount of electricity I am now using	0.031985	-0.15419	0.061318	-0.79244
9	Instead of building new power plants, customers should use less energy	0.008554	-0.03251	0.882823	0.041196
10	Conserving energy at home is an economic necessity	-0.37917	0.016036	0.132144	0.512544
11	It is possible to save energy without sacrificing comfort by being energy efficient	-0.27234	0.20752	0.401022	0.474139

Factor 1 is made up of statements 1,2,3 and 5, which show a general feeling that conserving energy is not an important issue to the respondents; this factor has been categorised as **“I don’t care”**.

The factor statements loading on Factor 2 related to a moral obligation and thus place a strong emphasis on conservation of energy; this factor has been categorised as **“Save our planet”**.

The factor 3 statement loadings show that these respondents have a holistic view on energy; this factor has been categorised as **“Energy supply concerns”**.

Factor 4 reflects that respondents do believe they can make changes to save electricity, and is termed **“Economic necessity”**.

The factor analysis shows that there are four different categories towards energy efficiency, with 3 of the 4 having a positive attitude towards energy efficiency. A K-means cluster analysis on the factors revealed that there are 5 different groupings, with different demographic characteristics and factor loadings on each.

### **Objective no. 3: Behaviour towards energy efficiency**

To determine how consumers behave towards energy efficiency, several questions were asked regarding their daily behaviour. The results are as follows:

- 21% of consumers never consider what the energy cost of their new appliances will be when purchasing a new item; the balance have some consideration, although a mean value of 2.88 implies that on average respondents do not usually consider the energy costs of appliances before purchasing;
- 31% of respondents have little or no CFLs (Compact fluorescent lamps) installed in their houses; the balance had at least 50% installed;
- 80% of respondents indicated that they switch off non-essential lights, giving a clear indication that respondents are conserving energy if it is easy to do;

- only 25% of respondents have a geyser blanket installed; however, 60% have lowered their geyser temperatures as an easier alternative;
- 50% of respondents take some action in response to the Power Alert indicator on TV when there is a power constraint on the electrical network, which advises South Africans to turn off non-essential appliances.

These results indicate some positive behaviour towards energy efficiency, but it must be borne in mind that these are self-reported rather than observed behaviours.

#### **Objective no. 4: Drivers to influence behaviour change**

The literature highlighted several reasons why consumers would change behaviour, including prices, energy shortages, environmental reasons, incentive, penalties and information. These were tested and evaluated using descriptive statistics as follows:

- higher prices: 42% of respondents felt that higher electricity prices would not change their behaviour (inelastic pricing behaviour), while 40% would react to an increase in the cost of electricity, with the balance being neutral;
- serious energy shortages of electricity and load shedding: 56% would make some change if affected, while 27% would not. This does indicate that in general this factor would encourage some changes to present energy consumption patterns;
- environmental disaster: 48% would make some behavioural change if there was an environmental disaster, while 29% would not do anything;
- incentive scheme: 70% of respondents would make some change if there was an incentive for them, while only 12% would not make any change. This shows that consumers want something in return for making more energy efficient choices;
- penalties: half of the respondents would make changes if there were penalties imposed for the use of energy during peak times, while 29% would still not make any changes. Thus a time of use tariff could result in positive benefits in terms of energy efficiency measures in the household;
- more information on energy efficiency: 76% of respondents would make a change to behaviour if they had access to more information, while only 11% would not make a change. This statement showed a higher response to behavioural change compared to the other factors.

These results indicate a relatively high resistance to change, given that consumers would require some benefits to themselves to induce this change.



## CONCLUSIONS

The present level of awareness of energy efficiency measures in South Africa is limited. There is a level of uncertainty with respect to energy efficiency measures, and this needs to improve. The attitude of consumers towards energy efficiency is generally positive, with the exception of the „*I don't care*“ factor. However, the majority of the respondents who have a positive attitudinal inclination are in the middle to higher income groups, which means that more focus would have to be placed on the lower LSM groups. The actual behaviour of consumers towards energy efficiency indicates that there is a relationship between the awareness and attitude of energy consumers, and many have started taking appropriate actions to reduce energy consumption.

To change behaviour would require some serious initiatives, particularly from government. the significance of the behavioural change factors are summarised in the following Table 4:

**Table 4: Behavioural change factors**

<b>Statement</b>	<b>Behavioural change</b>
Higher electricity prices	Less significant
Serious shortages of electricity and load shedding	Average significance
Major environmental disaster	Average significance
Government or utility incentive	Significant
Awareness of impact on environment	Average significance
Penalties for use during peak periods	Average significance
More information	Significant

A key finding is that there is a lack of information communicated to the end user. It is also not just information that is important but a deeper knowledge as to the impact of energy efficiency. The behavioural factors highlight that consumers are not only driven by cost but also driven by bigger more strategic issues facing the country and the world.

By comparison with international studies, the following factors were found in the Holt and Larson (2008) study of Florida consumers as being most likely to encourage consumers to use electricity more efficiently or consume less energy, given in Table 5:

**Table 5: Factors encouraging energy efficiency in Florida consumers**

<b>Factor encouraging energy efficiency</b>	<b>% of respondents</b>
Higher electricity rates	25%
Government or utility financial incentives	17%
Environmental awareness	15%
Penalties for wasteful usage	14%
Serious energy shortages	11%
Other	8%
Don't know	8%
Major environmental disasters	2%

Source: Holt and Larson, 2008

The main difference in these two studies is the perception of the role of higher electricity rates as a factor to change behaviour: South African consumers appear to be less influenced by higher rates. This could be due to the sample of respondents including fewer from the lower income, more price-sensitive segments, or due to lower price elasticity (less sensitivity) of South African consumers – perhaps the impact of the recently approved Eskom price increases had yet to have their full effect at the time of the study. However, other factors appeared to have similarity between the two studies, such as Government or utility incentives, serious energy shortages, major environmental disasters, and greater awareness of environmental issues.

## **IMPLICATIONS FOR MANAGERS/RECOMMENDATIONS**

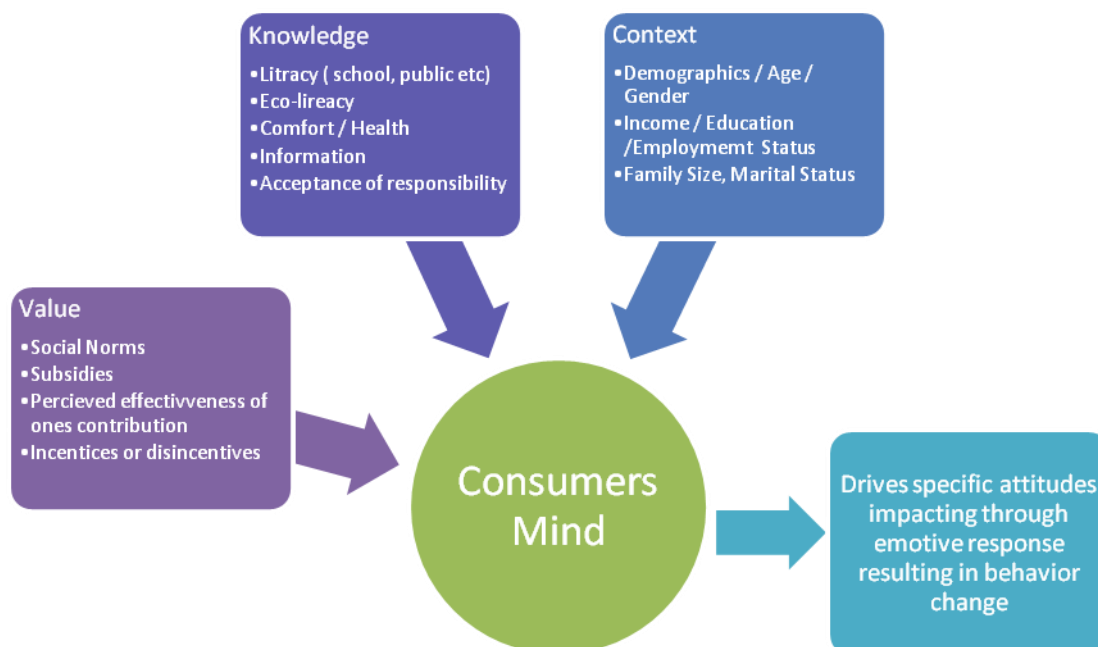
The findings in the research highlight several key issues which need to be addressed to improve the present level of energy efficiency within the country. A model has been developed with the literature study and the results from the research. A conceptual framework to deal with the issue of energy efficiency is presented. There are essentially two areas of concern and gaps at present,

- The formulation of a way to address how consumers start to make the fundamental switch in their minds on energy efficiency (consumer mind).
- The creation of a framework for information dissemination that would re-iterate the message of global crisis (behaviour changing learning model).

The two areas are termed consumer mind and behaviour changing learning models. The research highlights that there is a requirement to create a learning environment that is continuous and reiterates the message to consumers. The first key area is dealing with the „consumers mind“ is to formulate an integrated learning experience that can drive the various aspects of human behaviour. This is the fundamental building block for creating the correct mindset. Behavioural change occurs over time and therefore creating a learning environment in society would support correction of present behaviour.

The model below describes the conceptual framework for developing the tools that would assist the change in mindset, as illustrated in Figure 4:

**Figure 4 : Consumer Mind Model**



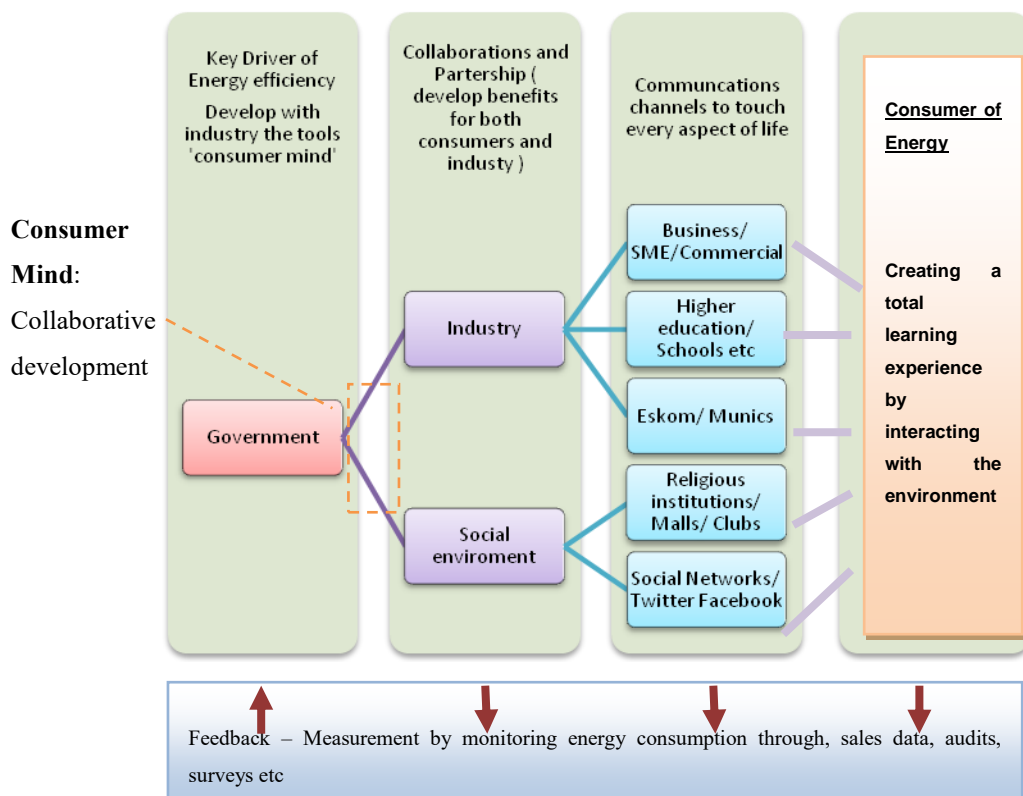
Source: Derived from the study

The conceptual framework creates a method on the different aspects that need to be taken into account when dealing with energy efficiency issues. The research has shown that people

make change due to some incentive. In a broader context this would mean developing different areas of value creation as man is driven by identifying with the benefit of his actions. This is largely supported by knowledge creation. The research showed that there is a lack of information and people are willing to make a change if they could understand more about the problem and what changes they can make to contribute towards becoming more energy efficient. Information sometimes may need to take on the correct form as information to one specific demographic may be channelled in a different method or form to others. The context therefore is to keep those factors in mind when developing the right communication tools for the right customer. The research has further shown that the way people respond to energy efficiency is different and therefore segmentation of different groups is essential, with different strategies for each.

The following model in Figure 5 describes the interrelationships that are required to have a holistic approach to energy efficiency:

**Figure 5: Behaviour changing learning model**



Source: Derived from the study

The model above details the extent to which every area within South Africa has the responsibility to communicate the energy efficiency related media. The communication is developed in collaboration with industry to ensure that correct methods are used for the correct target market in the specific environment. Each channel would have a specific plan for each of its target market. The ideal scenario would ensure that when a consumer interacts with the environment, some communication stimulates action towards energy efficient behaviour. An example of this is Woolworths food stores who offer recyclable packets with clear bold prints, a consistent reminder of more energy efficient living with the added benefit of branding. A similar methodology needs to be developed everywhere the consumers interact.

There are internal and external factors influencing energy efficient behaviour (Fischer, 2003). Internal factors include an „environmental consciousness“, which affects emotions, attitudes and intentions to act energy efficiently. External factors include the environment, initiatives that influence perceived costs and benefits, and feedback on actions, particularly in a social setting. Consequently, recommendations to organisations promoting energy efficient behaviour include a focus on (Fischer, 2003):

- provide opportunities: for access to and affordability of energy efficient devices
- provide useful information: education is a key to raise environmental awareness
- break routines and attract attention: for example, when changing accommodation or buying new appliances
- create a positive attitude towards energy efficiency: using efficient communication, social networks, and incentives
- create a sense of control: for consumers to control their energy consumption
- create the intention to act: as a good predictor for actual behaviour
- organise widespread diffusion of the behaviour: media coverage on the success of campaigns is essential, for the diffusion of actual behaviour change.

Consequently, organisations need to provide education, incentives for energy efficiency, as well as positive reinforcement of behaviour change, that should run in parallel to the more punitive measures such as higher electricity rates or penalties for wasteful usage.

Further research is required to add more value to developing strategic energy efficiency programmes:

- a study of methods to create incentives for energy efficiency, to initiate the required behaviour change;
- a qualitative study to determine the issues that consumers are presently concerned with in life and how does energy efficiency fit into these issues;
- a longitudinal study to determine the effectiveness of programmes over time, and monitor the change of consumer behaviour towards energy efficiency based on different schemes.

As the future of the country and the planet depends on changing attitudes and behaviour towards conservation of scarce resources and preservation of the atmosphere and the environment, it is critical that academics and business alike gain a greater understanding in the drivers of this attitude and behaviour change.

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**CUSTOMER RELATIONSHIP MANAGEMENT IN THE SHORT-TERM  
INSURANCE INDUSTRY – AN EXPLORATORY STUDY**

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## **CUSTOMER RELATIONSHIP MANAGEMENT IN THE SHORT-TERM INSURANCE INDUSTRY – AN EXPLORATORY STUDY**

The purpose of the study is to investigate CRM and its influence on customer loyalty at selected short-term insurance providers in Gauteng. The target population included all South Africans who currently have a policy with at least one of the selected short-term insurance providers, namely Outsurance, Santam, Telesure and Hollard. The convenience sampling method was applied, and a sample of 500 respondents were selected. Personal interviews were conducted with respondents and a structured questionnaire was used for the gathering of data. The study indicated that a significant positive relationship exists between conflict handling and CRM at four selected short-term insurance providers. It was also indicated that a significant negative relationship existed between commitment and CRM. It was evident that no relationship existed between trust and two-way communication and CRM. The study also revealed that a strong relationship existed between CRM and customer loyalty at the four selected short-term insurance providers in South Africa. Strategies were also provided for ways in which the four selected short-term insurance providers can maintain and improve their relationships with their customers in order to encourage loyalty, and therefore increase profitability.

Key words: Short-term insurance organisation, Customer Relationship Management (CRM), customer loyalty, trust, commitment, two-way communication and conflict handling

## INTRODUCTION

Ndubisi (2007) argues that the aggressively competitive environment present in the business world has forced organisations to build stronger relationships with their customers, which provide rewards for both parties. He further states that organizations fully utilize these strong relationships with their customers, as this provides them with insight information relating to the needs and wants of their customers in order to encourage them to remain loyal to the organisation. There are various reasons why organizations have the objective to create relationships with customers. Buttle (2004) states that organizations experience positive results when greater attention is paid to their customer base, due to the fact that they are then able to focus on their most profitable customers. Improving the retention rates of the organisation provides assistance in building this customer base and therefore improving the level of profitable customers.

In a typical service environment such as the short-term insurance industry, retaining customers has become increasingly important in order to secure the future survival and profitability of the organisation. Customer retention in the short-term insurance industry is imperative, due to the fact that it is an extremely competitive industry containing many choices for customers. The unstable environment in which short-term insurers in South Africa operate, necessitates them to put greater focus on customer retention. The reasons for this being the fact that customers are experiencing tough times and are therefore searching for ways in which to cut costs. Customers are more likely to choose an alternative supplier due to the range of choices in order to decrease their monthly costs. The reasons for the increased emphasis on the retention of customers is two-fold: firstly customer retention holds a financial benefit for an organisation in the form of increased profits, and also the fact that it costs more to attract a new customer than it does to retain an existing one. Therefore, the focus of this paper is to determine the influence of CRM on customer loyalty in the South African short-term insurance industry. The influence of the CRM elements trust, commitment, two-way communication and conflict handling on customer loyalty will also be determined.

## LITERATURE REVIEW

### The short-term insurance industry in South Africa

The South African insurance market was characterized by a gross premium income of \$4.9 billion, an increase of 31.7%, since 2008. Life insurance dominated the South African insurance market in 2008 and generated 75.8% of the market's overall gross premium income and non-life insurance generated the remaining 24.2% of the market's aggregate gross premium income. The short-term insurance industry exists in a highly competitive environment that has grown in recent years. The property and causality sectors have contributed the most to this growth in the industry by contributing 75.3% of the total industry income. The accident and health sector contributed the remaining 24.7% (Datamonitor, 2010a). The annual growth rate in the industry had been 11.2% between 2004 and 2008, but a decrease in its annual growth rate for 2009 and 2013 has been forecasted. The forecast growth rate is 2.8%, a substantial decrease of 8.4% in annual growth (Datamonitor, 2010b). The short-term insurance industry is characterised by various role players of which Outsurance, Santam, Hollard & Telesure are the most dominant in terms of market share (both property and motor vehicle insurance)(Metcalf, 2010). Table 1 depicts the main short-term insurance organisations in South Africa by market share.

**Table 1: South African short-term insurance market share, % share by value in 2009**

<b>ORGANISATION</b>	<b>% SHARE</b>
<b>OUTSURANCE</b>	22.50
<b>Santam</b>	19.20
<b>Hollard</b>	14.30
<b>Telesure</b>	12.00
<b>Other</b>	32.00
<b>Total</b>	100

Source: Datamonitor (2010a)

Economic activity in South Africa slowed in the last quarter of 2009 and the first quarter of 2010 (Life Offices Association, 2010). With the slowdown in economic activity, short-term insurance providers have to focus on retaining their current customers. CRM can be used to improve customer loyalty. Relationship marketing will work best when customers are engaged in relationship building activities (Leverin & Liljander, 2006).

### **Customer Relationship Management (CRM)**

Today, many organisations such as banks and life insurance organisations realise the importance of CRM and its potential to help them acquire new customers, retain existing ones and maximise their lifetime value (Onut, Erdem & Hosver, n.d). CRM provides a transition from a transaction-based to a relationship-based model that concentrates on the acquisition, development and retention of profitable customer relationships (Baran, Galka & Strunk, 2008). Kotler and Keller (2006) state that CRM encompasses a process of managing detailed information about individual customers, and carefully managing all customer touchpoints to maximise customer loyalty. A customer touch point is any occasion on which a customer encounters the brand and product, from actual experience to personal or mass communication to casual observation.

### **Four important components of CRM**

Scholars have listed the virtues that have been theorised in the CRM literature as trust, commitment, two-way communication and conflict handling (Ndubisi & Wah, 2005:544; Buttle, 2004:15).

#### **Trust**

Trust can be viewed as a partner's belief that the other partner will perform actions that will result in positive outcomes, as well as not take actions that will result in negative outcomes (Morgan &

Hunt, 1994). The trusting relationships between customers and organisations are associated with overall positive outcomes and trust in the organisation should increase the benefit derived from transacting with the organisation (Botha & Van Rensburg, 2010). Where trust is focused, there is a generalised sense of confidence and security in the other party. The parties believe that each party will act in the interest of the other, that each party will be credible, and that each party has the necessary expertise (Lian, Chen & Wang, 2008).

## **Commitment**

Commitment implies that partners forgo short-term alternatives in favour of long-term benefits associated with their current partners. Customers will only make commitments to trustworthy partners because commitment entails vulnerability and leaves them open to opportunism (Read, 2009). Commitment is higher among individuals who believe that they receive more value from a relationship, therefore highly committed customers would be willing to reciprocate effort on behalf of an organisation due to past benefits received (Botha & Van Rensburg, 2010). Commitment in this context refers to both parties understanding that they are in the market together for the long run. They are willing to make sacrifices for their partners because they are mutually dependent upon each other in their quest to achieve long-term returns on their psychological and financial investments (Morgan & Hunt, 1994).

## **Two-way communication**

Today there is a new view of communication as an interactive dialogue between the organisation and its customers which takes place during the pre-selling, selling, consuming and post-consuming stages. Communication in a relationship means providing information that can be trusted, providing information when problems occur and fulfilling promises (Ndubisi & Wah, 2005). For a customer to perceive a relationship as valuable, the customer's needs must be fulfilled. The needs of the customers can be established through gathering information from them. This can take place during face-to-face interviews with customers, focus groups and observing the services customers purchase (Tsai, Tsai & Chang, 2010).

## **Conflict handling**

Conflict handling can be described as the supplier's ability to avoid potential conflicts, solve manifested conflicts before they create problems, and the ability to discuss solutions openly with customers when problems do arise (Ndubisi & Wah, 2005). Only approximately 5% of all dissatisfied customers complain, and only 50% of them report a satisfactory problem resolution. The need and the ability to resolve customer problems in a satisfactory manner are critical. On average, satisfied customers tell three people of their good experience, while dissatisfied customers will tell eleven people. Customers whose complaints are satisfactorily resolved often become more loyal towards the organisation than customers who were never dissatisfied (Botha & Van Rensburg, 2010).

## **Customer loyalty**

Oliver (1999) refers to customer loyalty as a deeply held commitment to repurchase a preferred product or service in the future, thereby causing repetitive same-brand purchasing, despite situational influences and marketing efforts having the potential to cause switching behaviour. Customer satisfaction relates to the results of a process, however, customer loyalty relates to a relationship. Customer loyalty does not occur at once, it is a long-term process, but customer satisfaction can occur immediately following a successful process. Loyalty can survive a negative process (Botes, 2008). Satisfaction is a necessary step in loyalty formation, and satisfaction becomes less significant as loyalty begins to set in through other mechanisms such as personal determinism and social bonding (Oliver, 1999). To keep customers loyal, they must be satisfied. Customer satisfaction is the customer's evaluation of the product or service to ascertain if it met his/her needs and expectations. Failure by organisations to meet the expectation of customers will

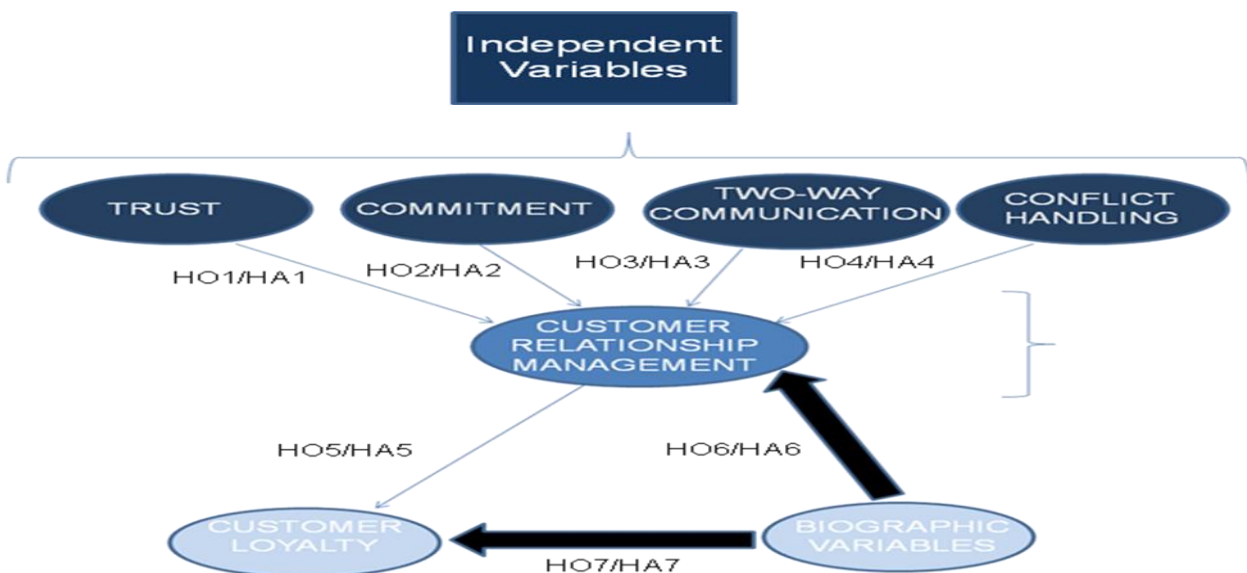
lead to dissatisfaction with the product or service, as customer loyalty flows from customer satisfaction (Zeithaml, Bittner & Gremler, 2009).

## PROBLEM INVESTIGATED

According to Stokes (2008), the surrendering of short-term policies is increasing. This is said to be due to the fact that organisations do not fully explain the details pertaining to their policy, and they are therefore less reluctant to surrender this policy. The second reason is due to the fact that individuals are living on a restricted budget that does not consider short-term insurance to be a priority cost. At the time of the economic recession, the need for the organisation to understand and ensure the presence of the components trust, commitment, communication and conflict handling is emphasized, as these may be the components that encourage the customer to remain loyal to the customer. The problem statement can thus be described as follows:

The influence of trust, commitment, two-way communication and conflict handling on customer loyalty through the intervening role of CRM in the short-term insurance industry in Gauteng remains unclear and unexplored.

**Figure 1: Conceptual framework**






Dependent  
Variable

Source: Researcher's own construct

Intervening  
Variable

Figure 1 illustrates that the independent variables of the research constitute selected variables as identified in the literature on CRM. These variables are trust, commitment, two-way communication and conflict handling. In this paper each variable's influence was assessed through an empirical investigation. The paper will further attempt to identify the degree of influence of CRM on the customer loyalty of selected short-term insurance providers in  Gauteng, the dependent variable. The dependent variable, customer loyalty, refers to the impact of the underpinnings of CRM on customer loyalty.

Service organisations can benefit from CRM, as customers focus on the service aspect and interaction with the service provider when evaluating a service organisation, as no physical product is involved (Rootman, 2006). Short-term insurance organisations need to be aware of the variables that influence its CRM activities. This would assist these organisations in adopting the required variables to ensure the improved application of the CRM process to strengthen customer loyalty and increase market share in South Africa.

## RESEARCH OBJECTIVES

### Primary objective

The primary objective of this study is to investigate the influence of the variables, trust, commitment, two-way communication and conflict handling on customer loyalty via CRM at selected short-term insurers in Gauteng.

### Secondary objectives

The following secondary objectives were identified:

- To determine whether trust, commitment, two-way communication and conflict handling influence CRM at selected short-term insurers in Gauteng.
- To investigate the intervening role of CRM on the effect of trust, commitment, two-way communication and conflict handling on customer loyalty at selected short-term insurers in Gauteng.

## **RESEARCH HYPOTHESES**

### **Relationship between trust, commitment, two-way communication, conflict handling and CRM**

HO<sup>1</sup>: There is no relationship between the perceived trustworthiness of selected short-term insurers and CRM at these insurance providers in Gauteng.

HA<sup>1</sup>: There is a relationship between the perceived trustworthiness of selected short-term insurers and CRM at these insurance providers in Gauteng.

HO<sup>2</sup>: There is no relationship between the perceived commitment of selected short-term insurers and CRM at these insurance providers in Gauteng.

HA<sup>2</sup>: There is a relationship between the perceived commitment of selected short-term insurers and CRM at these insurance providers in Gauteng.

HO<sup>3</sup>: There is no relationship between the perceived two-way communication of selected short-term insurers and CRM at these insurance providers in Gauteng.

HA<sup>3</sup>: There is a relationship between the perceived two-way communication of selected short-term insurers and CRM at these insurance providers in Gauteng.

HO<sup>4</sup>: There is no relationship between the perceived conflict handling by selected short-term insurers and CRM at these insurance providers in Gauteng.

HA<sup>4</sup>: There is a relationship between the perceived conflict handling by selected short-term insurers and CRM at these insurance providers in Gauteng.

### **Relationship between CRM and customer loyalty**

HO<sup>5</sup>: There is no relationship between CRM and customer loyalty at selected short-term insurance providers in Gauteng.

HA<sup>5</sup>: There is a relationship between CRM and customer loyalty at selected short-term insurance providers in Gauteng.

## **RESEARCH METHODOLOGY**

The study made use of a quantitative research approach and a descriptive research design. The study was also cross-sectional since the respondents were only interviewed once. The target population included all South Africans that currently have a policy with at least one of the selected short-term insurance providers, namely Outsurance, Santam, Telesure and Hollard in the Gauteng province. Non-probability sampling was used to determine the sample size for the study. The convenience sampling technique was applied to select the sample size of 500 respondents. A total of 431 respondents completed questionnaires. The measuring instrument used was a structured questionnaire and was developed and validated by Du Plessis (2010).

The empirical research component of the study consisted of the completion of interviewer administered questionnaires through personal interviews. The questionnaire consisted of two sections, Section A was in the format of a seven-point Likert type scale. The statements' response continuum ranged from 1-7, where 1 = strongly disagree; 2 = disagree; 3 = somewhat disagree, 4 = neutral, 5 = somewhat agree, 6 = agree, and 7 = strongly agree. This section investigated the influence of the variables trust, commitment, two-way communication and conflict handling on customer loyalty through the intervening role of CRM at selected short-term insurance providers in South Africa. Section B gathered demographic information from the respondents. This section contained fixed-alternative questions and open-ended response questions which the respondents answered in their own words (Zikmund & Babin, 2007; Roberts-Lombard, 2006; Rootman, 2006; Ndubisi & Wah, 2005; Zikmund, 2003). The questionnaire was not pretested since it had been used in a previous study and was found reliable. Personal interviews were conducted with

individuals who hold a policy with at least one of the four selected short-term insurance providers (Outsurance, Santam, Telesure and Hollard). These individuals were approached to complete the questionnaires in the Tshwane Metropole and the Johannesburg Metropole, respectively. A time frame of thirty days was used to complete the interviews.

Reliability and validity are the hallmarks of good measurement and the keys to assessing the trustworthiness of any research conducted. The reliability measurement for this study was the internal consistency reliability test. Reliability tests whether the questionnaire will measure the same thing more than once and result in the same outcome every time (Cant, Gerber-Nel, Nel & Kotze 2005; Ndubisi & Wah, 2005). The extent to which a particular measure is free from both systematic and random error indicates the validity of the measure. In this study, exploratory factor analysis, utilising the Varimax with Kaiser Normalisation technique was performed to assess the discriminant validity of the questionnaire. Validity was also confirmed by conducting the Kaiser-Meyer-Olkin (KMO) and Bartlett’s test of sphericity (Madiba, 2009). The statistical analysis that was used in the study included a multiple regression analysis to test the hypotheses formulated for the study, and an analysis of variance test (ANOVA). The rotation of the factor matrix was also performed to assess the discriminant validity of the measuring instrument.

## **FINDINGS**

### **Reliability**

Cronbach’s alpha was used to determine the reliability of the measurement sets in the study. The measure ranges from 0 to 1. A value of 1 indicates perfect reliability, whilst the value of 0.6 is deemed to be the lower level of acceptability (Malhotra, 2007). The reliability statistics for the measurement sets are presented in Table 2.

**Table 2: Reliability statistics**

<b>CONSTRUCT</b>	<b>CRONBACH'S ALPHA</b>
Trust	0.894
Commitment	0.849

Two-way communication	0.856
Conflict handling	0.863
CRM	0.885
Loyalty	0.95
CRM and loyalty	0.869

It is evident in Table 2 that the Cronbach alpha values for all seven measurement sets are above the lower limit of acceptability, 0.60. This confirms that the measurement sets used in the study were reliable. It was also proven that the measurement instrument had proved itself reliable in a previous study. Therefore, the reliability of the current state of affairs was assessed.

### **Validity**

When assessing validity, the researcher determines whether a measure used in the study actually does measure what the researcher intends it to measure. As previously indicated, the measurement instrument developed and validated by Du Plessis (2010) was used in this study. The instrument was considered valid for the purposes of the present study.

## **DISCUSSION**

### **Trust**

The majority of the respondents (84%) agreed that trust is an important variable in the relationship that they have with their short-term insurance provider.

„I will have a better relationship with my short-term insurance provider if it fulfils its obligations towards me“. This statement was rated the highest under the independent variable trust, and aspects such as the speed of service delivery and the accuracy of information provided are perceived as important characteristics that will support loyalty between the customer and the organisation.

„My relationship with my short-term insurance provider depends on whether its employees show respect to customers“. This statement was rated the lowest under the independent variable trust, and it can therefore be assumed that the respect that employees have for customers will have the least impact on securing customer loyalty. Therefore respect is least effective in securing customer loyalty.

### **Commitment**

The majority of the respondents (87%) are of the opinion that commitment is not an important factor that influences the relationship that they have with their short-term insurance provider.

„My relationship with my short-term insurance provider depends on the attitude of its employees towards customers.“ This statement was rated the highest under the independent variable commitment, and aspects such as the helpfulness and friendliness of employees are important characteristics that will support loyalty between the customer and the organisation.

„I am very committed to my relationship with my short-term insurance provider.“ This statement was rated the lowest under the independent variable commitment, and it would seem that the customers of the four short-term insurance providers in the study are not strongly committed to them.

### **Two-way communication**

The majority of the respondents (81%) are of the opinion that two-way communication is an important variable in the relationship that they have with their short-term insurance provider.

„My relationship with my short-term insurance provider depends on whether it makes and fulfils promises“. This statement was rated the highest under the independent variable two-way

communication, and illustrates that the ability of a short-term insurance provider to fulfil and act on promises are important characteristics that will support loyalty between the customer and the organisation.

„The more extensively I communicate with my short-term insurance provider, the better relationship I develop with them“. This statement was rated the lowest under the independent variable two-way communication, and it can therefore be assumed that trust will be least restored if employees communicate with customers on a regular basis. Therefore, the use of communication alone would not secure the loyalty of customers.

### **Conflict handling**

The largest proportion of respondents (91%) illustrated that conflict handling is an important variable in the relationship that they have with their short-term insurance provider.

„My relationship with my short-term insurance provider will be better if they apologise for problems that arose.“ This statement was rated the highest under the independent variable conflict handling, and it is therefore aspects such as the speed by which problems are resolved, as well as the manner in which these are dealt with which are important characteristics that will support loyalty between the customer and the organisation.

„I have a good relationship with my short-term insurance provider because it tries to avoid potential conflict with me.“ This statement was rated the lowest under the independent variable conflict handling, and it would seem that the avoidance of conflict is the least effective in securing customer loyalty. This may be due to the fact that avoiding conflict is not clearly evident to the customer, and the customer may not be aware that the avoidance of conflict is taking place.

### **CRM and customer loyalty**

The majority of the respondents (89%) are of the opinion that CRM has an influence on their decision to be loyal to their short-term insurance provider.

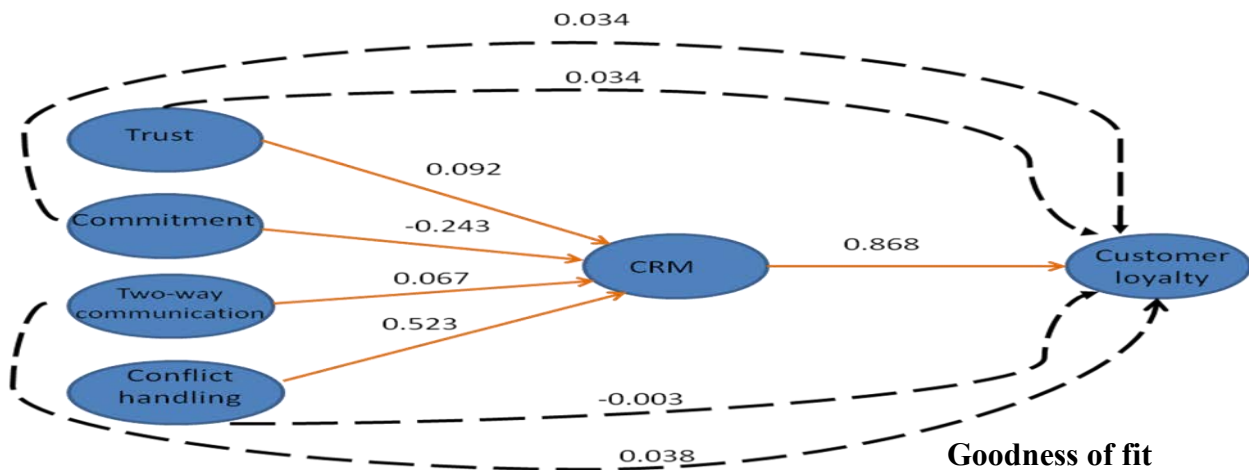
„My short-term insurance provider’s customer loyalty depends on whether it understands the needs of customers.“ This statement is rated the highest, and it can therefore be argued that understanding the needs of customers has the greatest impact on the loyalty of the customer.

„I will be a satisfied client of my short-term insurance provider if I have extensive relationships with my short-term insurance provider.“ This statement is rated the lowest, and it would seem that customers do not find it important to have an extensive relationship with their short-term insurance provider. Therefore, having extensive relationships with customers in the short-term insurance industry is least effective in securing customer loyalty.

**Goodness-of-fit and multiple regression analysis**

The goodness-of-fit model and multiple regression analysis were performed to assess the relationship between the four independent variables and customer loyalty, as well as the influence of CRM on customer loyalty. The discussion will be guided by Figure 2.

**Figure 2: Proposed relationship between the independent variables, CRM and customer loyalty**





Source: Researcher's own construct

Model 1 was the initial model (refer to Figure 1) and when assessed, it was found to have a RMSEA value of 0.093 (refer to Table 3). According to Byrne (2010), if this value is between 0.08 and 0.10 it is an indication of a mediocre fit that can be improved. If this value is greater than 0.10, this indicates a poor fit. Therefore, the ideal value would be one that is less than 0.08. Model 1 was therefore not found to be a good fit and was adapted.

**Table 3: The goodness of fit model for the predictors**

Model	GFI	AGFI	NFI	CFI	TLI	RMSEA	DF	CMIN (x)
Model 1	0.764	0.721	0.789	0.825	0.808	0.093	344	1619,513
Model 2	0.837	0.802	0.848	0.88	0.865	0.085	246	1012,681
Model 3	0.879	0.845	0.894	0.92	0.908	0.078	164	597,701

Four statements were excluded from model 1 (refer to Table 4) in order to improve the fit. These statements were excluded due to the fact that their squared multiple correlations were below 0.400. The removal of these statements created Model 2.

**Table 4: Removed statements from Model 2 to improve the goodness of fit**

STATEMENT CODE	STATEMENT
A1G	My short-term insurance provider is concerned with the protection of my assets.
A2G	I am very committed to my relationship with my short-term insurance provider.
A3A	The more extensively I communicate with my short-term insurance provider, the better relationship I develop with it.
A4A	I have a good relationship with my short-term insurance provider because it tries to avoid potential conflict with me.

The statements above had a negative effect on the goodness-of-fit of Model 1 due to the fact that they may not be specific enough, and therefore respondents are uncertain about how to respond to the statement. Another reason may be that respondents are simply not able to respond to the statement. This may have been evident in statement A4A stating that respondents may not be aware of whether or not the short-term insurance provider has tried to avoid potential conflict. The exclusion of the above statements caused a drop in the RMSEA value to 0.085. However, the model still required improvement, and therefore a third model was considered through the exclusion of four more statements. In Model 3 the statements in Table 4 were excluded, as well as the statements in Table 5 that had squared multiple correlations of less than 0.300.

**Table 5: Removed statements from Model 3 to improve the goodness-of-fit**

STATEMENT CODE	STATEMENT
A2F	My short-term insurance provider is willing to invest in maintaining relationships with its customers.
A3C	My relationship with my short-term insurance provider can improve If it regularly provides me with information on new or important services through different media sources.
A3F	My relationship with my short-term insurance provider depends on whether it tailor makes their communication to suit my needs.
A4B	My relationship with my short-term insurance provider is good because it has the ability to openly discuss solutions when problems arise.

The exclusion of the statements in Table 5 decreased the RMSEA to 0.078, which provided a more favourable model fit. Thereby, Model 3 was created.

### **Multiple regression analysis**

#### **Influence of trust, commitment, two-way communication and conflict handling on CRM**

The aim of the final model was to describe the influence of trust, commitment, two-way communication and conflict handling on CRM. The standardised regression rates for this model

are illustrated as solid arrows in Figure 2. There is low regression between trust, two-way communication and CRM. There is a moderate regression between commitment and CRM, but this relationship is negative. A negative regression implies that an increase in one aspect results in the decrease of the other. The relationship between conflict handling, and CRM is the strongest of the four constructs.

**Table 6: Influence of the independent variables on CRM**

	<b>GFI</b>	<b>AGFI</b>	<b>NFI</b>	<b>CFI</b>	<b>TLI</b>	<b>RMSEA</b>
<b>Model 3</b>	0.836	0.810	0.877	0.916	0.908	0.066

A model is perceived to have a good fit if the RMSEA value is below 0.08 and the CFI value is higher than 0.09. The evident good fit from Table 6 above indicates that the observed measurements obtained illustrated that the different independent variables had an overall significant influence on CRM.

**Influence of trust, commitment, two-way communication, conflict handling and CRM on customer loyalty**

The final model further aimed to determine the regression between CRM and customer loyalty. The standardised regression rates for the influence of CRM on customer loyalty are illustrated by Figure 2. This figure illustrates the important function of CRM as an intervening factor in the relationship between the independent and dependent variables. This therefore necessitates the need for the intervening variable, CRM. This is due to the fact that the regression is extremely low when CRM is excluded from the model.

## ACCEPTANCE OR REJECTION OF HYPOTHESES

The following hypotheses are accepted, and the alternative hypotheses rejected:

H0<sup>1</sup>: There is no relationship between the perceived trustworthiness of selected short-term insurers and CRM at short-term insurance providers in Gauteng.

HA<sup>2</sup>: There is a relationship between the perceived commitment of selected short-term insurers to customers and CRM at selected short-term insurance providers in Gauteng.

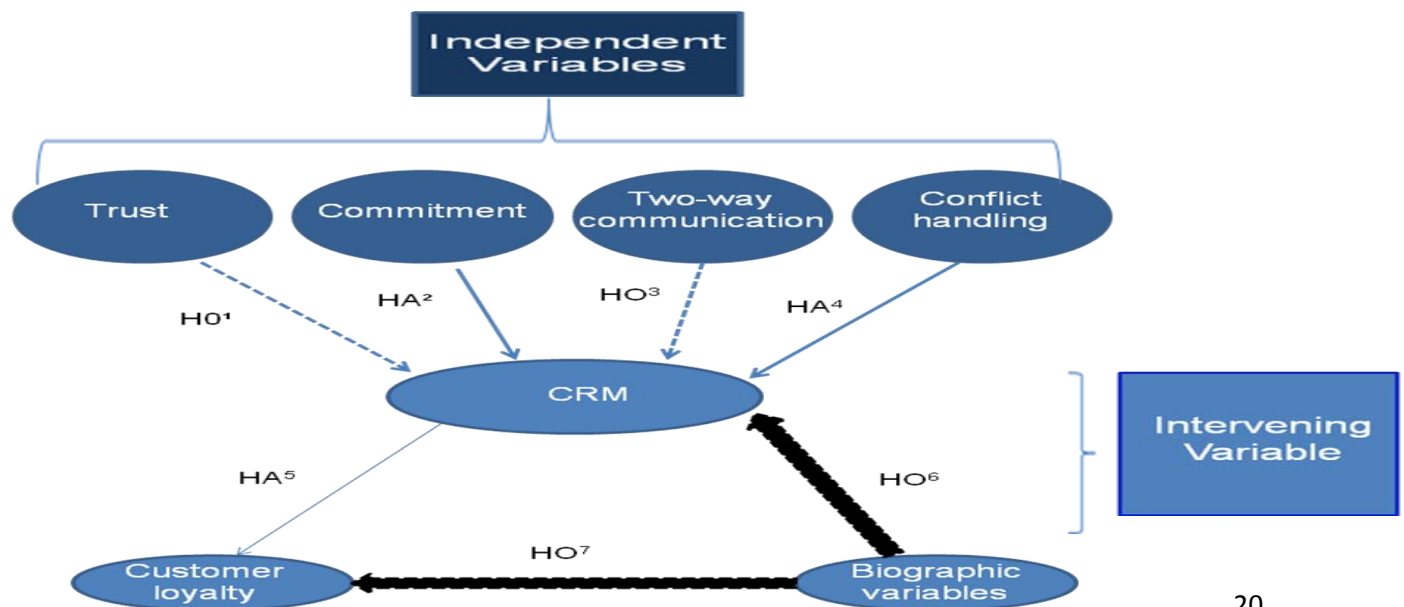
HO<sup>3</sup>: There is no relationship between the perceived two-way communication of selected short-term insurers and CRM at selected short-term insurance providers in Gauteng.

HA<sup>4</sup>: There is a relationship between the perceived conflict handling by selected short-term insurers and CRM at selected short-term insurance providers in Gauteng.

HA<sup>5</sup>: There is a relationship between CRM and intentional customer loyalty at selected short-term insurance providers in Gauteng. This hypothesis is accepted.

Figure 3 illustrates the hypotheses that have been accepted. The null hypotheses are indicated as a dotted arrow.

**Figure 3: Final empirical model of hypotheses acceptance**





Dependent  
Variable

Source: Researcher's own construct

## MANAGERIAL IMPLICATIONS

### Trust

A study in the long-term insurance industry in South Africa, based on the same variables as the study at hand, revealed that trust is an important factor in the development of relationships, and there is a relationship between trust and CRM and therefore customer loyalty (Du Plessis, 2010). However, the regression analysis of the study at hand revealed that there is no significant relationship between trust and CRM in the short-term insurance industry. This could be due to the fact that long-term insurance such as life insurance, is perceived to be of greater importance than short-term insurance, and this therefore decreases the need for trust. The four short-term insurance providers must therefore emphasise the need for short-term insurance in order to highlight its importance. This can be done by emphasising the outcome of unforeseen circumstances, and the fact that the outcome is worse if the customer does not have short-term insurance. Due to the fact that the majority of the respondents agreed with the statements relating to trust, it can be assumed that trust is needed to enhance and strengthen a relationship.

Short-term insurance providers must therefore enhance the levels of trust by communicating regularly with their customers on aspects such as better deals or better options that will clearly benefit the customer, and by making sure that insurance claims are managed in a professional manner without any hassles. If customers are paying a monthly premium, it is expected that they benefit at a time of need. The level of trust should be assessed on a regular basis in order to determine any changes that need to be made relating to staff and strategies. The staff of the organisation must be trained in keeping the personal information of clients confidential. They may also need training on how to make customers feel that they can trust the organisation, such

as reassuring them that their personal details will be kept confidential and their requests will be processed in due time.

### **Commitment**

It is evident from the results that commitment is important in building relationships between the short-term insurance industry and their customers. Customers can not be loyal if there is a lack of commitment from both the customer and the supplier. The short-term insurance industry can encourage commitment by offering incentives such as a no-claims bonus for not claiming over a certain period of time, as well as rewarding customers with lower payments and cash back bonuses. These insurance providers must ensure that the incentives provided are relevant and appealing to customers. They can do research in order to determine this. Each customer will have different preferences which will provide the organisations with various options to offer. Some may like the idea of a weekend away, financial incentives, meal vouchers. These organisations could go as far as linking up with a specific car dealership and providing incentives such as discounts on vehicles, parts or services for remaining with the organisation. The more short-term insurance organisations adjust their offerings to the individual needs of their customers, the more likely it is for the customer to be committed and therefore possibly remain loyal to the organisation. Commitment is an attribute that contributes greatly to the achievement of loyal customers.

Short-term insurance providers can segment their customers according to their life-time value as well as profitability. With regard to CRM, organisations should first divide their customers into groups before deciding which customers have greater potential and therefore need increased attention. It may not be viable for a relationship to be built with each customer. The four selected short-term insurance providers are large organisations that have a high number of customers, it would therefore be too difficult for relationships to be developed with each of these customers. The level of commitment of the organisation and the customers should be assessed on a regular basis by means of surveys or questionnaires. If commitment is low, the reason must be determined and corrective actions must be put into place.

## **Two-way communication**

Two-way communication can be described as a „two-way process of reaching mutual understanding, in which participants not only exchange (encode-decode) information, but also create and share meaning“ (Baran *et al.*, 2008). Although it is clear that there is no relationship between two-way communication and CRM, recommendations will be made due to the fact that respondents agree with the statements relating to two-way communication, and therefore consider two way communication to be important in relationship building. The short-term insurance industry can ensure communication by sending monthly newsletters to their customers in order to ensure that the customer has the opportunity to become aware of any news in the short-term insurance industry.

The staff of these providers must be well trained and fully understand the functioning of the organisation in order to have the necessary information to communicate with the various customers. These providers should also ensure that customers are promptly notified should anything happen with any of their insurance policies, claims or pay outs. This is where two-way communication relates to conflict handling, if communication occurs, the need for conflict handling is less likely to be necessary. Monthly statements should be prepared if the customer deems it necessary. The level of communication should be assessed regularly in order to determine if the organisation is not communicating enough, or is perhaps communicating too little. The two-way communication of the organisation should be assessed on a regular basis by means of surveys or questionnaires.

Organisations must ensure that two-way communication is implemented throughout the individual departments in order to ensure that each department works in synergy and towards achieving the same objectives. An important fact is that CRM is not dependent on one department, it must be implemented and accepted in each department. Organisations must also ensure that they are able to communicate in certain language preferences, using a preferred method such as telephone, e-mail, post or fax. Some customers may request monthly statements or annual statements.

## **Conflict handling**

If an organisation does not handle complaints with urgency and respect, customers will see no reason to trust, commit to or communicate with the organisation. This emphasises the need for adequate and effective problem recovery. It is evident from the empirical results that conflict handling is important in building relationships. It is important for the short-term insurance industry to realise the benefits of conflict handling. If these providers resolve conflicts effectively, customers who experience a problem, again will not hesitate to notify the organisation before it affects any other customers. Conflict between a customer and an organisation can possibly result in customer loyalty due to the positive handling of a conflict situation.

The short-term insurance industry should make the process of laying a complaint problem-free in order to encourage customers to notify them of problems, as their customers comprise their only source of identifying problems or areas that need improvement. Short-term insurance providers can do this by providing blogs or complaint boards on their website that can be accessed at any time. These organisations must also realise the importance of keeping customers informed regarding the progress of the resolving of a conflict or problem. It is the effective resolving of these problems that causes the customer to build greater respect for the organisation, and this in turn encourages the customer to be loyal to the organisation. The conflict handling of the organisation should be assessed on a regular basis by means of surveys or questionnaires. This will enable the organisations to determine if they are resolving conflicts in a satisfactory manner, or if weaknesses need to be brought to their attention. Organisations can also offer online complaints facilities with set standards relating to response time and follow up. It is imperative to have facilities such as call centres that make it easy for customers to voice their complaints and feel satisfied in doing this and getting conflicts resolved.

## **Relationship between CRM and customer loyalty**

The empirical results state that there is a significant relationship between CRM and customer loyalty. The intervening variable CRM, is needed in order to achieve customer loyalty due to the fact that there is no relationship between trust, commitment, two-way communication and



conflict handling and customer loyalty, without the intervening variable CRM. This therefore necessitates the need for CRM. The success of CRM can only be achieved if the entire organisation is behind its implementation. The top management of short-term insurance providers have to believe in the benefits that CRM can provide, as well as justify its expenditure in order to lead by example. Short-term insurance providers should therefore retain and develop loyal customers by being trustworthy, committed, by communicating adequately and regularly and lastly by resolving conflicts in a timely and acceptable manner, limiting the hassle and disappointment experienced by the customer. This can be achieved by monitoring complaints and communication with customers, as well as conducting regular surveys assessing the level of trust and commitment in order to determine how and if these levels need to be improved. Trust can be obtained by delivering on promises made, which in turn can lead to commitment. Commitment can also be achieved through personalising offerings to the individual needs of customers in order to provide them with a reason to be loyal. Two-way communication and conflict handling also have a link, if a conflict is being resolved, the progress of this must be communicated. The short-term insurance providers must ensure that they offer incentives in order to encourage customers to be loyal. These incentives include the “pay as you drive” which is offered by Hollard, and is relevant to customers who do not drive a lot and therefore cannot warrant an expensive premium. It is the tailoring of offers, such as this that encourages customers to be loyal. They could also introduce loyalty programmes that track the number of claims made, and decrease the premiums for every year that no claims are made.

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# **ELECTRONIC SERVICE QUALITY IN THE AVIATION INDUSTRY**

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## ABSTRACT

Aspects of traditional service quality (dimensions, related variables etc.) have been studied extensively over the past two decades; however, the study of the service quality of Websites is still in its early stages.

This study contributes to a growing body of literature of service quality and behavioural intent. The main objective of this study was to identify and investigate the dimensions of service quality in an online context and to ascertain how these dimensions contributed to customer satisfaction and behavioural intent.

This study used electronic service quality scale. Data was analysed by statistical means to determine electronic service quality factors in the airline industry. Results further revealed that Information and Ease of Use were considered as the significant dimensions to focus on when influencing buying intent. Behavioural intentions can be either positively or negatively influenced through an airlines electronic service quality.

While this study limited to one industry only, the attempt to investigate the impact of electronic service quality dimensions on customer satisfaction is of value.

**Keywords:** Service, Quality, Marketing, Online

## **1.0 INTRODUCTION**

Online purchasing is becoming increasingly common as a purchasing mode. At the onset of e-commerce it was thought that success was guaranteed merely by being present on the internet and offering low prices. These days customer service has proved itself to be a key element for achieving good results in a website (Zeithaml, Parasuraman & Malhotra, 2002). In this context, the study of commercial Website quality has emerged as an area of strategic importance. As in traditional stores, service quality and customer satisfaction seem to play vital roles in the success and survival of Internet sites. Traditional viewpoints for examining how consumers evaluate services rely heavily on the personal aspects of the service encounter. Nowadays, services are being delivered in a non-traditional fashion, such as the internet, without any person to person interaction occurring (Long & McMellon, 2004).

Therefore, particular characteristics of Internet sales outlets differentiate them from traditional sales modes. Impulsive buying is a significant proportion of sales in many areas of traditional retailing but impulsive purchasing on the Internet, faces many obstacles (e.g. lack of sensory stimulation and concerns about security and privacy). As Madharavan and Laverie (2004) suggested, Website effectiveness or quality elements could influence impulse purchasing behaviour. If the Internet is to succeed as a major distribution channel, a key factor will be exploitation of its potential to satisfy customers by delivering high service quality and to stimulate impulsive buying.

## **2.0 PROBLEM STATEMENT**

Aspects of traditional service quality (dimensions, related variables etc.) have been studied extensively over the past two decades; however, the study of the service quality of Websites is still in its early stages. While traditional service quality is defined by Parasuraman, Zeithaml, and Berry (1988) as “an overall evaluation or an attitude relative to the superiority of the service”, Zeithaml, Parasuraman & Malhotra (2002) defined electronic service quality as the extent to which a Website facilitates efficient and effective shopping, purchasing, and delivery of products and services. Evaluation of transactional quality entails an assessment of

pre- and post-service experiences. Comparisons can then be made to traditional service quality to clarify the similarities and differences. Due to the intangibility of services it is far more difficult for customers to evaluate. However, one element should be present in both online and offline transactions and that is that service cues should be present both pre and post a transaction.

The specific characteristics of online commerce make direct application of the dimensions of service quality developed in other environments inappropriate. These dimensions cannot be expected to capture all of the subtleties of the evaluation of service quality of commercial Websites (Parasuraman, Zeithaml & Malhorta, 2005). Online and offline purchase environments create different shopping experiences, even when the same products are being purchased. Online shopping is more impersonal, is more automated, supplies fewer direct sensory stimulations and immediate bonuses, and contains more legal uncertainties and opportunities for fraud or abuse (Bressolles, Durrieu & Giraud, 2007).

Due to the nature of online commerce and the differences between an online and offline purchasing environments, the usual dimensions used to measure service quality such as tangibility, reliability, responsiveness, assurance and empathy are unsuited. Online shopping can be regarded as more impersonal as the customer will not experience any human interaction, however they can more easily compare alternatives than offline customers. Online shopping can alter customer expectations about services as they will have access to more information they will be able to better determine what type of service they will be receiving and thus they are then less likely to be dissatisfied at the service received. An online environment could decrease a customer's satisfaction when it comes to a perceived lack of privacy and financial security, perceived lack of human contact and poor interface design (Meuter, Ostrom, Roundtree, & Bitner, 2000).

In addition to other factors, such as stiff competition among rivals and entrenched customer shopping habits, failure of online retailers is primarily due to poor quality services rendered to their customers (Zeithaml, 2002). To survive in fierce industry competition, many practitioners in the service quality field have focused on how to improve online services to attract potential



customers and on how to retain current customers. Zeithaml *et al.* (2002) have emphasised that companies should focus on online service encompassing all cues and encounters that occur before, during and after the transaction and if properly utilised the internet can be a powerful service offering tool. Researchers have also pointed out that Service Quality is one of the key determinants of online success (Zeithaml *et al.*, 2000) and this is based primarily on the following two reasons.

Firstly, the service quality of online retailers greatly influences customer satisfaction and the intention to shop online in the future. Secondly, online retailers' service quality is critical in attracting potential customers (Cai & Jun, 2003). So therefore to attract and retain customers, online retailers or airlines, need to have a clear understanding of what internet users expect for service quality. If an organisation does not focus on encompassing all cues and encounters that occur pre and post a transaction, they will not be focusing on their online services which could attract potential customers and allow them to retain their current customers, all the while giving themselves a competitive advantage which will in turn allow them to not only survive in a competitive environment but be successful.

Airline websites are designed to provide a one-stop service and be not only informative, but also functional, in that they allow internet users to book flight online, make hotel and car reservations, register for package tours and carry out other key functions (Chu, 2001). In response to the fast pace information age, many airlines have worked hard to develop their own websites to facilitate e-commerce transactions. In terms of online purchasing versus offline purchasing, online purchases identify a benefit in the fact that customers receive information directly from the website without having to seek out a sales person (Zeithaml, *et al.*, 2002).

Internet users make use of the web in order to minimise their search costs which has been identified as one of the key benefits of online shopping (Ariely, 2000; Lynch & Ariely, 2000). A large amount of freely available information- if it is well organised and easily accessed – is frequently mentioned by consumers as an important reason to purchase on the internet (Vanitha, Lepkowska, & Tao, 1999).

Wolfenbarger and Gilly (2001) state that the availability of information is one of the most important aspects of online purchasing. Therefore, when an airlines website is designed, ample, correct and relevant information should be available to customers to enable them to compare products so that they can make an informed decision / choice. Customers will not be making an informed decision if the web site contains insufficient information. The availability of accurate information is one of the most important aspects of online purchasing as there is no sales person to relay information. Managers in the airline industry must continue to invest in their information technology to ensure that they are providing the best possible quality service that they can to their customers.

There are numerous factors that might be fuelling passenger growth, but there is no doubt that service quality plays a critical role in the success of the airline industry (Bamford & Xystouri, 2005; Rhoades & Waguespack, 2008). Numerous studies show that that profitability is linked to service delivery (Bates and Johnston, 2003) and the general importance of quality service in organisations (Gustafsson & Nilsson, 2003; Di Mascio, 2007). Additionally researchers have shown much interest in the area of passenger expectations and airline quality (Fodness & Murray, 2007; Chen & Chang, 2005; Gilbert & Wong, 2003).

Website quality has emerged as an area of strategic importance. Service quality, customer service and customer satisfaction play a vital role in the success and survival of internet sites and are key elements for achieving good results on a website. Online purchasing is becoming increasingly common as a purchasing mode and if a website is to succeed, it must satisfy customers and deliver high quality service to increase online buying. The purpose of this study is to identify the dimensions of service quality in an online context and to try to understand how these dimensions contribute to customer satisfaction and behavioural intent. Additionally, to also determine which specific dimensions of electronic service quality and consumer satisfaction best promotes buying impulses in customers.

Internet consumer loyalty is difficult, costly and requires a level of quality service that satisfies the consumer (Van Riel, Liljander, & Jurriens, 2001). The literature on service marketing includes much research on the service quality satisfaction relation, in both the traditional and

online contexts (Wolfenbarger and Gilly, 2003). Satisfaction is an ex post evaluation of a customer's experience with a service, and it is captured as a positive, indifferent, or negative feeling. Oliver (1997) defines satisfaction as "the perception of pleasure fulfillment of a service and loyalty as deep commitment to the service provider".

Leading service firms have identified total customer satisfaction both as a goal and as an imperative. Customer satisfaction need not be viewed the same as Service Quality. Service Quality does not necessarily lead to customer satisfaction and customer satisfaction is not necessarily an antecedent of Service Quality (Gardiner, 2004: 9). Customer satisfaction is a short-term transaction-specific measure, whereas Service Quality is a long-term overall evaluation of a service. Hence the perception of Service Quality by a customer is formed over time through a number of dealings during which either satisfaction or dissatisfaction was achieved (Hoffman & Bateson, 2002: 324). In the e-commerce context, Wolfenbarger and Gilly (2003) identify a positive link between electronic service quality's dimensions (information (SQ1), ease of use (SQ2), design/graphics (SQ3), reliability (SQ4), security/privacy (SQ5), interactivity/personalisation (SQ5)) and customer satisfaction.

The quality of web sites has become a key indicator of how well a company is likely to satisfy its customers. Another new challenge is the rapid increase in expectations and level of sophistications of the e-customers. In recent years, research efforts have been directed at understanding how e-customers perceive the quality of e-service as well as how these perceptions translate into customer satisfaction and behavioural intentions. Adding to the challenges of managing e-customers, it has become crucial to understand how individual customer differences, in terms of information technology (IT) skills, influence their online experience, behaviour and attitudes (Udo, Bagchi, & Kirs, 2008).

Several studies on service quality in physical encounters have concluded that some factors are responsible for customers' perceptions of quality which are likely to lead to customer satisfaction and which, in turn, may lead to behavioural intentions to purchase. Some authors (Zeithaml, Berry, & Parasuraman, 1996; Zhang & Prybutok, 2005) have pointed out that

behavioural intentions may predict behaviour, implying that behavioural intention constructs are relevant to customer service. Given that satisfied customers are more likely to stay with a company for long periods, service quality has an effect on customer satisfaction and company's profitability (Anderson, Fornell, & Lehmann, 1994). Hence, quality service dimensions can affect a customer's satisfaction which determines whether or not they will return to the same company for their future business.

Customers can be classified into emotionally satisfied and rationally satisfied. Both types of customers are extremely satisfied with the products or services a company may provide, however, there is a distinctive element between the two, which is the emotional connection of customers. Emotionally satisfied customers can have a strong emotional attachment to a company, while rationally satisfied customers, in contrast, lack the above mentioned emotional attachment. Furthermore, emotionally satisfied customers tend to spend more money at a company and become repeat consumers of the same brand while rationally satisfied customers behave in a similar manner to a dissatisfied customer (Chatzigeorgiou, Christou, Kassianidis, & Sigala, 2009). "Customers want more than transactions – they want relationships" (Fleming & Asplund, 2007).

As such, converting first time visitors into actual buyers is a major challenge for a web based service provider (Ranaweera, Bansal, & McDougall, 2008). Fransi and Viadiu (2007) also state that „reaching“ a new customer is not enough, it is also necessary to retain them and earn their loyalty. A report by Healey & Baker consultancy (2000) noted that a significant proportion of attempts by customers to purchase via the internet actually fail. According to the report 46% of transactions are cancelled, and in some countries, such as Spain, this failure rate can be as high as 75%. The causes of these extraordinary failure rates are likely due to problems such as technical [deficiencies in the vendors communication networks or the consumers' connection] or personal which can be seen as a lack of experience in the use of internet by the customer (Fransi & Viadiu, 2007).

Service quality can be defined also as „the difference between customer expectation for service performance prior to the service encounter and their perceptions of the service received

(Asubonteng, McCleary, & Swan, 1996). Customers' evaluations of service quality are critical to service firms that aim to improve their marketing strategies (Cronin & Taylor, 1992; Jain & Gupta, 2004; Ofir & Simonson, 2001) Firms that provide superior service quality also have a more satisfied customer base (Aaker & Jacobson, 1994; Gilbert, Veloutsou, Goode, & Moutinho, 2004; Gilbert & Veloutsou, 2006).

A cross-industry comparison of customer satisfaction, 2006), however more and more companies are compelled to assess and improve their service quality in an effort to attract customers (Gilbert & Veloutsou, 2006). With the internet and technology development, the web site has replaced the physical business unit. Perceived web site usability and new electronic environment is a very significant part of the corporate image and can affect shopping behaviour (Cristoal, Flavian and Guinaliu, 2007).

### **3.0 METHODOLOGY**

#### **3.1 Study objectives**

The purpose of this study is therefore to identify and investigate the dimensions of service quality in the online context and to try to understand how these dimensions can contribute to customer satisfaction and behavioural intent. The functional nature of behavioural intent [buying behaviour] is introduced as a moderator. The objective here is to determine which specific dimensions of electronic service quality the consumer satisfaction best promote buying impulses among functional buying customers.

#### **3.2 Research design objectives**

The remainder of this paper is organised as follows. The next section of the paper presents a review of relevant literature concerning Service Quality and Electronic Service Quality, its dimensions and characteristics. Based on the secondary literature review, a questionnaire will be constructed to collect primary data on Electronic Service Quality Dimensions. The questionnaire will be piloted to test for reliability and validity. If the pilot study provides

favourable results and electronic version of the questionnaire will be sent out to a larger base of individuals who have booked and purchased their airplane tickets online. The data retrieved from respondents questionnaires will be captured on Excel.

### **3.3 Hypotheses**

To address the above-mentioned research questions, the following model was implemented. Figure 1.1 shows the model and the researched relationships. The following hypotheses were then formulated:

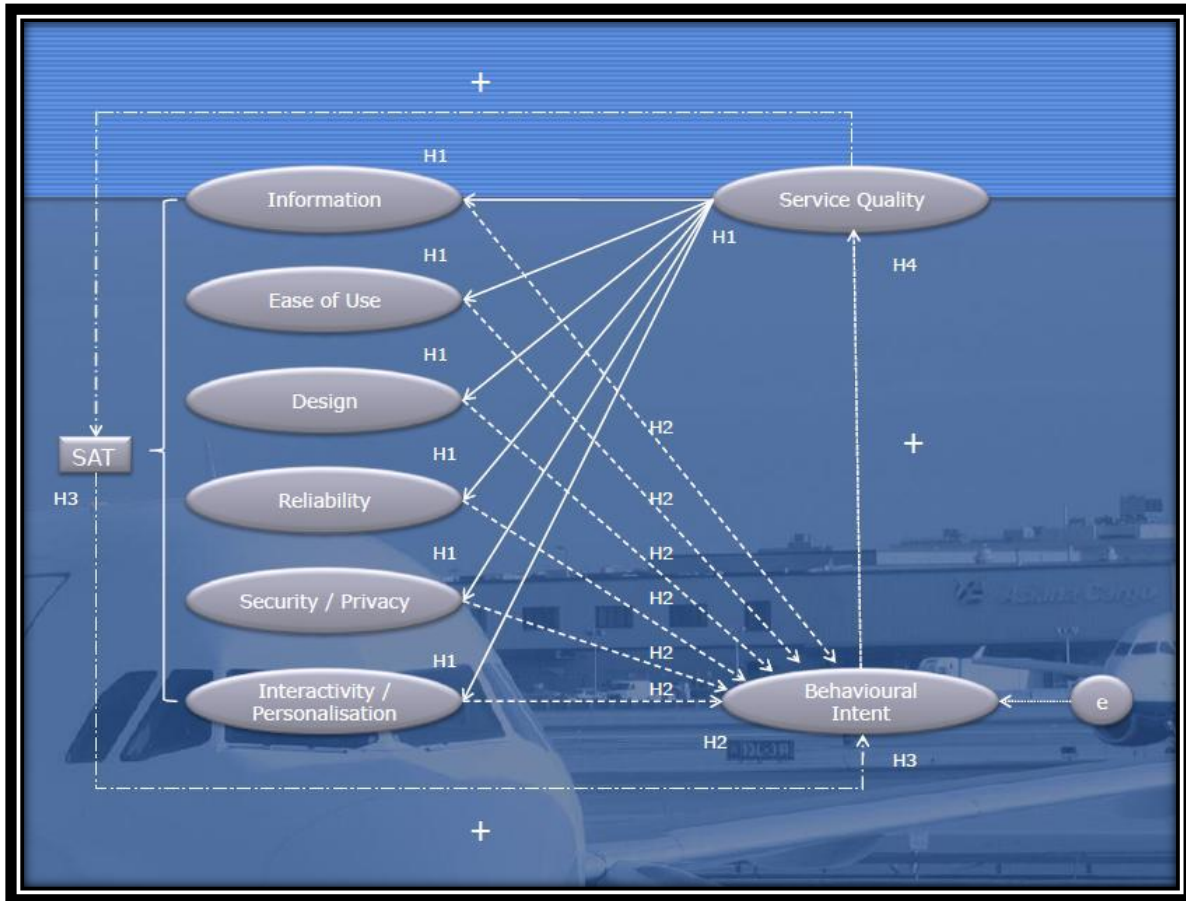
*HO<sup>1</sup>: Service Quality exerts no influence on Satisfaction which comprises of the six sub dimensions of electronic service quality*

*HO<sup>2</sup>: The six dimensions of electronic service quality exert no influence on behavioural intent.*

*HO<sup>3</sup>: Service quality exerts no positive influence on customer's behavioural intentions.*

*HO<sup>4</sup>: Service quality exerts no influence on behavioural intent.*

**FIGURE 1.1 – THE RELATIONSHIPS MODEL**



### 3.0 DISCUSSION AND RESULTS

Using stratified sampling, 185 usable questionnaires were used. The reliability of the questionnaire was tested by the calculation of its Cronbach alpha coefficients. Table 1.2 below shows the measuring instrument alpha values for the pilot study and post pilot study. The lowest score returned was for the interactivity/personalisation dimension and was 0.84. The Information dimension produced an alpha coefficient of 0.92; the Design dimension produced an alpha coefficient of 0.88 which is lower than the pilot study value of 0.92. The Ease of use dimension returned an alpha coefficient of 0.91; the Security/Privacy dimension returned an alpha coefficient of 0.89; the Reliability dimension returned an alpha coefficient of 0.87 and lastly; the Satisfaction dimension returned an alpha coefficient of 0.89.

**TABLE 1.1: CRONBACH ALPHA COEFFICIENT VALUES OF MEASURING INSTRUMENT**

<b>Measuring Instrument Dimensions</b>	<b>Pilot study values</b>	<b>Post pilot study values</b>
<b>Information</b>	0.91	0.92
<b>Design</b>	0.92	0.88
<b>Ease of Use</b>	0.93	0.91
<b>Security/Privacy</b>	0.90	0.89
<b>Interactivity/Personalisation</b>	0.75	0.84
<b>Reliability</b>	0.89	0.87
<b>Satisfaction</b>	0.86	0.95
<b>Behavioural Intent</b>	0.98	0.89

Using regression analysis revealed that two of the independent variables, Reliability ( $p < 0.006$ ) and Interactivity ( $p < 0.009$ ), have a statistically significant and therefore positive relationships with the overall service quality. This means that if these two factors are emphasised more strongly, airline websites will achieve higher levels of satisfaction. Further analysis also explored that SAT ( $p < 0.000$ ) positively affects service quality positively. In other words, customer satisfaction is an important element to be used when delivering service quality.

It is imperative for companies that offer online shopping facilities to do two things. Firstly, they must be accurate when it comes to billing, updating details of their website as well as when dealing with customer enquiries. Secondly, to be prompt when delivering their service. Online stores must provide mistake free service (i.e. billing for correct products ordered) and secure online transactions in order to make their customers feel comfortable when making use of a websites online shopping facilities which will encourage their return and re-use of the website (Lee & Lin, 2005).



There are also a strong relationship between the electronic service quality dimensions and their influence on behavioural intent ( $p < 0.000$ ). Several studies on service quality in physical encounters were identified and it was found that some factors are responsible for a customer's perception of quality which could be likely to lead to customer satisfaction which in turn leads to behavioural intentions to purchase (Zhang & Prybutok, 2005). Both Parasuraman *et al.* (1998) and Zeithaml *et al.* (1996) found a positive relationship between service quality and behavioural intentions.

High service quality as perceived by customers was found to often lead to favourable behavioural intentions while low service quality tends to lead to unfavourable behavioural intentions (Zeithaml *et al.*, 1996). The more positive the customers experience, the more likely the customers are satisfied with the service quality they receive, and the more likely they will re- use the service (Zhang & Prybutok, 2005).

Ease of Use scored considerably high ( $p < 0.000$ ) which indicates that this dimension is particularly important when influencing Behavioural Intent. This makes sense and as reported earlier, if customers find a website difficult to use or not user friendly, they will more likely move on to another website. . If users have to wait due to long waiting periods it is likely that they will quit and move to another website. Transactional functions give customers the impression that the website is simple and user friendly when completing transactions (Kim & Lennon, 2004; Novak *et al.*, 2000).

An adequate degree of usability can create a positive bias in a customer and higher levels of satisfaction (Flavian, Guinaliu, & Gurrea, 2006; Kim & Eom, 2002; Chen, Wigand, & Nilan, 1999). The Information dimension ( $p < 0.000$ ) also extracts positive influence on Behavioural Intent. Providing sufficient information is important because the more information the customer has, the more able they are to make better informed decisions. While adequate information enhances a customers intentions (Francis & White, 2002) the quality of the information delivered is the main key factor that affects the websites success through the positive influence of a customers behaviour intentions (Feindt, Jeffcoate, & Chappell, 2002).

Furthermore, service quality exerts positive influence on behavioural intent ( $p < 0.000$ ). This means that the more service quality is achieved by airlines, the more influence it will have on behavioural intent which increases purchases. The results also explore that service quality exerts positive influence on customer's behavioural intentions. A customer's evaluation of the service received are critical to service firms and service firms that provide superior service quality have a more satisfied customers and satisfied customers display positive purchase intentions. This means that the higher the service quality level offered, the more it will positively influence customer's behavioural intentions. Customer's behavioural intentions are as a result of the service quality they have experienced; therefore the level of service quality provided does affect how a customers behavioural intention are influenced. A customer's evaluation of the service received are critical to service firms and service firms that provide superior service quality have a more satisfied customers and satisfied customers display positive purchase intentions.

#### **4.0 CONCLUSIONS**

The main objective of this study was to identify and investigate the dimensions of service quality in an online context and to ascertain how these dimensions contributed to customer satisfaction and behavioural intent. The present study has contributed to the attainment of the above objective by firstly identifying the six electronic service quality dimensions which were found to include Information, Design, Ease Of Use, Reliability, Security/Privacy and Interactivity/Personalisation and by identifying pertinent factors in each dimension which should be taken into consideration when creating an airlines webpage.

One major limitation was that the sample was relatively small and a larger sample will be needed to validate the findings of this study further. A selected sample figure of 1000 respondents was thought sufficient for this study. However, the researcher had to settle for a sample of 185 respondents even though it was considered to be too small when compared to the amount of passenger traffic that takes place on a day to day basis. The initial method for obtaining respondents was through the social network website Facebook. Requests for assistance in completing the questionnaire were sent out to various airlines that have a Facebook page with

member listings into the thousands. This method has been and is still been employed by many academics who have had more favourable results.

The empirical results revealed that Reliability and Interactivity / Personalisation are more significant dimensions in achieving Service Quality within the airline industry which positively influences satisfaction. Results further revealed that Information and Ease of Use were considered as the significant dimensions to focus on when influencing buying intent. Behavioural intentions can be either positively or negatively influenced through an airlines electronic service quality. This will largely depends on to what degree each sub-dimension will be focused on and integrated into the airlines website. While this study has its limitations the attempt to investigate the impact of electronic service quality dimensions on customer satisfaction is of value.

Airline service quality is based largely on customer's perceptions of what services should be and how they should be delivered. Reed & Sasser (2007) suggests that airlines suffer from a "business culture in which the costs of fuel and labour are viewed as more important than happy customers in determining profitability". Furthermore it is suggested that airlines will never "rank at the average, and certainly not above the average, in customer satisfaction because of some of the intrinsic factors...that never change" (Reed & Sasser, 2007). Comments such as these indicate that airlines are not yet convinced that satisfaction is a key to their success, but the growing list of competitive alternatives might change industry minds. If competition does not change hearts and minds, then the threat of government regulation might (Tiernan, Rhoades, & Waguespack, 2008).

Service quality improvement initiatives should begin with identifying the customer's needs and preferences and their related quality dimensions (Jun, Yang, & Kim, 2004). If airlines understand what dimensions their customers use or view as more important to judge quality, they can then take the correct actions to determine and enhance performance in those dimensions. This study identified six key online sub-dimensions namely Information, Ease of Use, Design, Reliability, Privacy/Security and Interactivity/Personalisation. Obviously in order to provide a high level of overall service quality, airlines should pay attention all of the six

dimensions which were identified in this study.

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# **ENVIRONMENTAL BUYING DECISIONS: A KENYAN PERSPECTIVE**

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## **ABSTRACT**

This study is for the purpose of determining the environmental buying decisions among tertiary students in Kenya. Global awareness on environmental concerns has led scientists to study human behaviour as it relates to environmental issues. In Kenya there have been sporadic activities that are aimed at taking care of the environment or raising the awareness of the extent of environmental degradation in certain areas. However there is a lack of a clear coordinated plan or policy to address environmental issues. This could be due to lack of sufficient exposure of people to the growing environmental problems consequently the population has not developed habits of taking care of the environment. The specific objectives of the study were to: determine the environmental buying decisions made by tertiary students and to establish how some socio-demographic factors influence the buying decisions that tertiary students make. The study employed both quantitative and inferential methodology to achieve the objectives and also test the hypothesis. The target population of the study was all the students at Strathmore University Madaraka campus, in Nairobi, Kenya and a sample of 203 respondents was drawn. The study concluded that age is a key factor when making buying decisions regarding the issue of the environment. The results indicated that the more the older the person the more the individual will consider the environmental issues when making a decision to purchase an item. The study also noted that the decision to be environmentally conscious lies on an individual but not whether one is a man or a female. The study also concluded that the level of income does not seem to influence the buying decisions that people make. Having used a convenient sample may hinder the possibility of generalising the findings to the broader population.

**Keywords:** Environmental concern; buying decisions; Kenya; environmental behaviour; quantitative methods.

## **1. INTRODUCTION**

Environmental issues have stimulated research in the last few decades. Research exists on the impact of human behaviour on the environment, air pollution, climate change, water pollution and depletion of resources (Lehman & Gellar, 2004). A lot has also been written regarding handling of solid waste, soil erosion and contamination, loss of green space and species diversity (Lehman & Gellar, 2004). Concern for the protection of the environment has led scientists to study human behaviour in relation to environmental issues. Behavioural intervention or pro-environment behaviour has been proposed, setting targets and techniques to promote constructive behaviour towards the environment (Lehman & Geller, 2004).

However the concern of marketers regarding environmental issues is to establish the impact that these have on consumer buying decisions. There is evidence in research that environmental concerns do affect consumer buying decisions ( Prakash, 2002; Diamantopoulos, Schlegelmilch, Sinkovics & Bohlen, 2003. Companies are more sensitive toward environmentally friendly goods and services ( Wedel and Kamakura, 2000) and consequently these companies have an interest in segmentation analysis to enable them to target their market of environmentally conscious consumers more effectively ((Wedel and Kamakura, 2000).

## **2. RESEARCH OBJECTIVES**

A number of environmental protection initiatives have been implemented or considered in a number of communities. These are not very wide spread and they are limited to certain communities. Tertiary institutions by virtue of their access to young people (who may be more exposed to environmental concerns) are an ideal place to conduct research: The following research questions can then be posed:

- What are the environmental buying decisions made by tertiary students?
- How do socio-demographic factors influence the buying decisions that tertiary students make?

The research objective for this specific project is to determine the environmental buying decisions made by tertiary students in the Kenyan context.

### **3. LITERATURE REVIEW**

#### **3.1 The impact of behaviour on the environment**

The earth's population has been on the increase over the past 100 years from approximately 1.5 billion in 1900 to 6.3 billion in 2003 (; Cohen, 2003). The United Nations has projected that the world's population will reach 8.9 billion by the year 2050 (United Nations, 2002). Though the earth's carrying capacity is not well known, even with the current population, many practices are not sustainable, so that the consequences of our actions and the limited resources available will interfere with what the future generations will have to depend on (Lehman & Geller, 2004). Many of the products people use today are used and then discarded and this leads to the accumulation of waste and pollution of the environment.

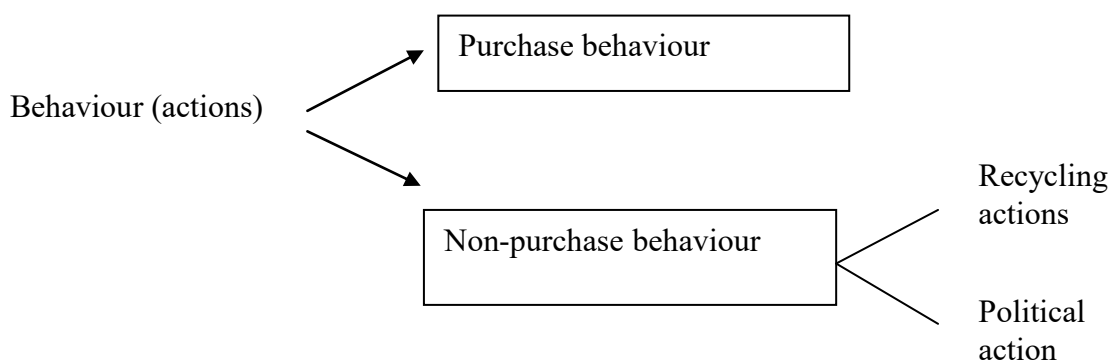
#### **3.2 Environmental concern**

Scholars have for a number of years successfully profiled consumers according to their environmental awareness ( Diamantopoulos et al., 2003); for example some have measured environmental attitudes ( Blackwell, Miniard and Engels, 2006; De Young, 2000), capturing individuals' level of concern/interest regarding specific aspects of the environment. Other studies have looked at past, current and future or intentional commitment towards involvement in activities that aim at minimizing the negative impact on natural environment (Lehman & Gellar, 2004). However, though a weak link between attitudes and behaviour has been noted ( Diamantopoulos et al.,2003; Blackwell et al., 2006), attitudinal components alone have failed to predict actual behaviour. Other researchers have argued that in order to be „green“ individuals require an understanding of the consequences of their behaviour (Wedel and Kamakura, 2000; Albarracin, Johnson & Zanna, 2005). The awareness of the negative impact that certain actions can have on the environment together with a sense of responsibility could lead to increased likelihood of recycling actions according to Schwartz's norm activation theory (Stern, Dietz & Kalof., 2005). The behaviour of the individual is driven by a personal norm, such as altruism, and this affects attitudes and actions towards the environment for example recycling (Stern et al., 2005; Vining & Ebreo, 1990 ). The altruistic motivation stems from a real concern for the „common good“ rather than a perceived immediate personal benefit (Huge, Brodin & Anderson, 2008). This will include the good of society at large, the future generations and respect for natural environment. The altruistic behaviour then becomes the basis for sustained recycling activities (Huge, Brodin & Anderson, 2008).

Scholars have generated studies on environment from different points of view, Prakash (2000) wrote about greening the firm specifically the politics of corporate environmentalism; De Young (2000) tried expanding and evaluating motives for the environmentally responsible behaviour; Barr (2007), looked at the factors influencing environmental attitudes and behaviours; Cleveland, Kalamas and Laroche (2005), studied the shades of green behaviour linking environment locus of control and pro-environmental behaviours; ; Diamantopoulos, Schlegelmilch, Sinkovics & Bohlen (2003), explored whether socio demographics still have a role to play in profiling green consumers in which they paid some attention to the environmental consciousness of consumers. In an earlier paper they explored variables specific to environmental consciousness to see if they were suitable for categorizing consumers' green purchasing decisions. They measured environmental knowledge, attitudes and behaviour, a study they carried out among students in the UK. Lehman and Gellar (2004) analysed behaviour and environmental protection in which they looked closely at accomplishments and potential for more. Some studies have tried to link green behaviour with purchasing decisions as well as measures of environmental consciousness as Prakash (2002), and Wedel & Kamakura (2000). ).

Two types of consumer behaviour reflecting environmental concern have been identified by Bohlen, Schlegelmilch and Diamontopoulos (1993), namely purchasing and non-purchasing behaviour. These are reflected in Figure 1.

Figure 1 A model of environmental concern behaviour



Adapted from: Bohlen, Schlegelmilch and Diamontopoulos (1993)

Given the link between knowledge attitudes and behaviour, it is obvious that the type of outcomes may be influenced by country-specific factors such as levels and types of pollution,

the existing legislation regarding environmental issues as well as the availability of green products which in turn affect the environmental consciousness construct and how it can be operationalized (Barr, 2007). The majority of studies on environmental issues have been done in the US and therefore the results may not be valid for other settings (Diamtopoulos et.al., 2003).

In Kenya a number of organizations have made efforts to take care of aspects of the environment. Campaigns for cleaning the rivers, planting trees, cleaning up facilities or estates are carried out from time to time and are generally well publicized by the media. The government has put a few laws in place to protect the environment. However there is a lack of a clear coordinated plan or policy to address environmental issues. This could be due to lack of sufficient exposure of people to the growing environmental problems consequently the population has not developed habits of taking care of the environment. There is no literature available on environmental buying decisions in the Kenyan market. This paper hopes to determine the environmental buying decisions that tertiary students make and whether socio-demographic factors have any influence on these decisions and whether there is a relationship between the environmental buying decisions and the socio-demographic factors, age, gender and income.

### **3.3 Hypothesis development**

Though studies using socio-demographics to determine their effect on environmental behaviour have yielded mixed results (Diamantopolous et al., 2003), this research was undertaken in an effort to establish if there is any awareness of the need to conserve the environment and if this awareness has any influence on the buying decisions people are making in an emerging economy like Kenya. There did not seem to exist any published research in this area carried out in Kenya, at the moment of writing

A number of hypotheses were then formulated for the project:

H1: Customers who are older will exhibit more buying decisions based on environmental concerns

H2: Women exhibit more buying decisions based on environmental concerns

H3: Customers from middle income group exhibit more buying decisions based on environmental concerns

#### 4. RESEARCH METHODOLOGY

Use was made of a quantitative methodology. The research was of a descriptive design whose aim was to conduct an initial exploration of the environmental issues. In this research a paper-based self administered survey was used to collect data from respondents.

The target population of the study was all the students at Strathmore University Madaraka campus, in Nairobi, Kenya. This is a private University that has a population of students from different ethnic, social and economic backgrounds and therefore fairly representative of the population of the country at large. The population consisted mainly of students at this University. The data was collected by volunteer students during the break periods and after classes on campus. A convenience sample of 203 respondents was drawn.

The research instrument consisted of four sections:

**Section A:** Demographics of the respondents

**Section B:** Measurement of abstract knowledge on a five-point unlabelled Likert scale (where 1=unconcerned and 5= very concerned). There was also measurement of some concrete knowledge regarding questions posing where to recycle and what can be recycled.

**Section C:** Attitudes to environmental issues, including belief and affect components. The 23 statements are derived from a study done by Bohlen et al. (1993), as well as from Maloney, Ward & Braucht (1975). The scale used was a five- point unlabelled Likert scale (where 1=strongly disagree and 5= strongly agree).

**Section D:** Actions or behaviours exhibited with respect to environmentalism. They are also linked to the studies conducted by Bohlen et al. (1993), Vining and Ebreo (1990) and Maloney et al. (1975), and contain statements that relate to both buy- and non-buying actions. The scale used was a five-point unlabelled Likert scale (where 1=never and 5= always).

This research determined the reliability of the measurement set and the distribution of the results. The scores were calculated for the different components of the study and the hypotheses were tested using parametric test.



## 5. FINDINGS OF THE RESEARCH

203 usable responses were retrieved. The following sections present the results on reliability tests and the distribution of measurement set, profile of the respondents, the findings on the awareness, attitudes and actions on environmental issues and the outcome of the hypothesis testing.

### 5.1 Reliability

Reliability was measured using Cronbach's Alpha technique. The dimensions of awareness and actions registered a high reliability of 0.875 and 0.823 respectively whereas the dimension on attitudes recorded a satisfactory reliability of 0.728. A value of less than 0.7 according to Hair, Bush & Oritneau, (2006), indicates a low level internal reliability. This measurement set is therefore deemed to be reliable.

Table 1

Dimension	Number of items	Cronbach's Alpha	Reliability
Awareness	12	0.875	High reliability
Attitudes	23	0.728	Satisfactory reliability
Action	13	0.823	High reliability

### 5.2 Respondent profile

The table 2 presents the profile of the respondents in this research. The majority of the respondents were in their 20's (79.3%), female (62.1%), and 37.9% male. The question on the level of education was misunderstood and contradicts the question on employment it was therefore ignored. The home language category has a mixed distribution of 39.1% of category including the Kalenjin/Maasai/Kikuyu/Mijikenda having the largest percentage while the category with Kisii/Embu/Dholuo/Turkana had 15.3%. The distribution is a good representation of the general population. For the income category, the greatest percentage is those who came from households earning less than Ksh 25,000 per month (59.7%) of those who responded. However, 34.3% of the total respondents did not answer this question. All the respondents were Kenyan (100%) and a good mix of students studying the University

with the largest group drawn from the Faculty of Commerce (37.6%) incidentally this is the largest department in the University.

Table 2

Characteristic	Distribution
Age	15.3% younger than 20;
	79.3% in their 20s;
	3.0% in their 30s and
	2.5% in their 40s
Gender	37.9% male; 62.1% female
Education completed	10.3% had completed high school;
	9.4% had a technical qualification;
	78.3% had an undergraduate qualification and
	1.0% had a postgraduate qualification
Employment status	9.4% were employed on a full-time basis;
	5.4% part time;
	77.2% were students and
	7.9% unemployed
Home language	16.8% Kiswahili;
	13.4% English;
	39.1% Kalenjin/Mijikenda/Maasai/Kikuyu;
	15.8% Kisii/Embu/Dholou/Turkana;
	21.3% Meru/Kamba/Kiluhya/Kuria;
	8.4% “Other Kenyan”;
	0.5% Other Asian;
0.7% other European languages	
Net monthly household income	59.7% less than Ksh25,000;
	8.2% Ksh25,000 – Ksh45,000;
	5.2% Ksh45,001 – Ksh60,000;
	4.5% Ksh60,001 – Ksh80,000;

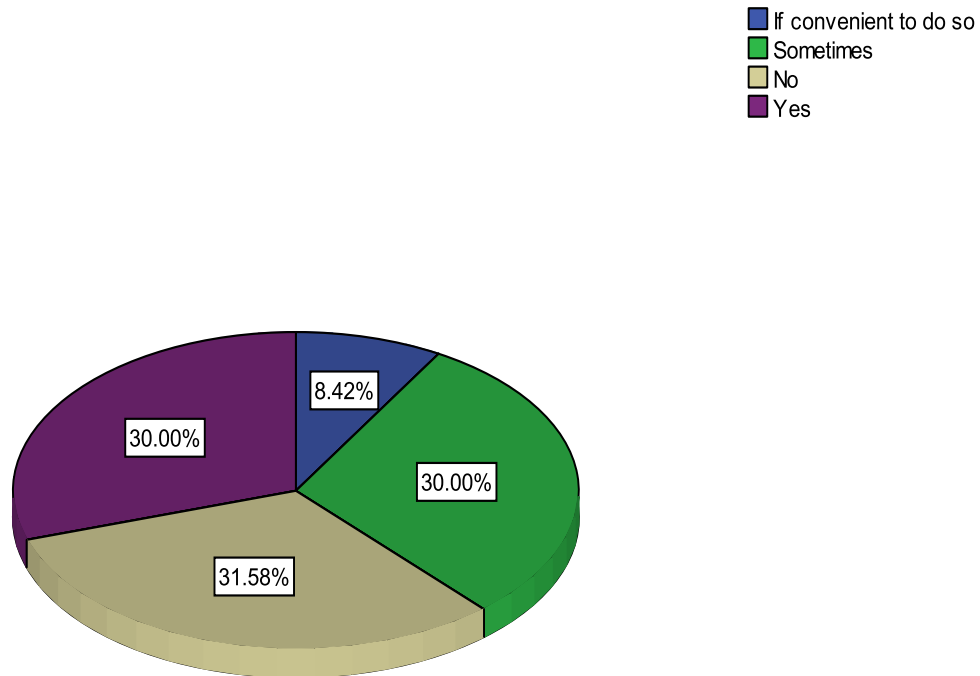
	5.2% Ksh80,001 – Ksh110,000;
	6.0% Ksh110,001 – Ksh160,000;
	6.0% Ksh160,001 – Ksh300,000;
	5.2% Ksh300,001 and above;
	Note: 34.3% missing i.e. did not respond
Nationality	100% Kenyan
Place of residence	49.8% live less than 5km from campus;
	50.2% live more than 5km from campus
Faculty/School of registration	18.8% School of Accountancy;
	37.6% Faculty of Commerce;
	22.8% Faculty of Information Technology;
	20.8% School of Tourism and Hospitality

### 5.3 The component of action on environmental issues

The highest mean recorded was on the statement (3.90) „I choose an environmentally friendly alternative if one of a similar price is available“ and the lowest was (2.24) was on „I boycott organisations that are not environmentally responsible“. The statement which recorded the lowest standard deviation was „I have changed to products that are environmentally friendly“. This reflects that many people are making deliberate choices to promote environmentally friendly products.

## 1.0 Actions

### Do you recycle any items?



**Figure 1.1 Recycling**

Figure 1.1 shows the results on the questions regarding recycling of items. From these results 30 percent of the respondents agreed to recycling different items while a slight majority 31.58 percent revealed that they don't recycle irrespective whether the items in question are recyclable or not. 30 percent of the other respondents revealed that they do recycle sometimes while 8 percent confirmed that they recycle if it is necessary to do so. The results imply that overall the majority of the respondents are concerned about environmental issues particularly on recycling products. However there was a high percentage of those who said that they do not recycle.

**Table 3: Descriptive statistics on actions statements**

Action	Descriptive Statistics	
	Mean	Std. Deviation
I choose an environmentally-friendly alternative if one of a similar price is available	3.95	1.147
I would join an environmental group to protect the environment	3.81	1.213
When possible, I prefer to buy organically grown fruit and vegetables	3.79	1.465
I encourage other people to recycle	3.25	1.410
I take shopping bags when doing grocery shopping	3.22	1.612
I make a special effort to buy products in recyclable containers	3.19	1.437
I prefer to buy recycled paper products	3.01	1.341
I have changed to products that are environmentally-friendly	2.96	1.241
I buy products that have not been tested on animals	2.91	1.720
I try to buy environmentally-friendly detergents and cleaning materials	2.79	1.296
I choose environmentally-friendly products regardless of the price	2.76	1.196
I try to find out about the environmental effects of a product before I buy it	2.50	1.234
I boycott organizations that are not environmentally responsible	2.41	1.363

## 6. DISCUSSION OF FINDINGS

### 6.1 Environmental buying decisions made by tertiary students

The aim of this study was to determine the environmental buying decisions made by tertiary level students and to establish how some socio-demographic factors influence those buying decisions.

Table 3 shows the means and standard deviations of the different questions on the environmental buying decisions made by the tertiary students. These results indicate that

there are three issues that the students seem to consider when making the environmental buying decisions those with mean ( $\geq 3.5$ ) with significant standard deviation. These include: Choosing an environmentally-friendly alternative if one of a similar price is available, joining an environmental group to protect the environment and when possible buying organically grown fruit and vegetables. The results from the table also indicate that some of the decisions that the students sometimes make when purchasing items (mean  $\geq 2.5$ ) with significant standard deviation. These include: encouraging other people to recycle, taking shopping bags when doing grocery shopping, making special effort to buy products in recyclable containers, buying recycled paper products, changing to products that are environmentally-friendly, buying products that have not been tested on animals, buying environmentally-friendly detergents and cleaning materials, choosing environmentally-friendly products regardless of the price and trying to find out about the environmental effects of a product before buying it. However the students do not seem to boycott organizations that are not environmentally responsible.

## **6.2 Effects of socio-demographic factors on the buying decisions**

Table 4 shows the results of cross tabulation between the levels of education, gender and choosing an environmentally friendly alternative if one of a similar price is available. The results indicate that 11 percent of female university students do not consider choosing an environmental friendly alternative product while the majority of female's students at (56 percent) do consider making a choice between the alternatives. In the case of males, half of the university students do not consider these alternatives while the other half does sometimes make these decisions. The results also indicate that 30 percent of females with technical courses sometimes consider choosing the alternative products based on environmental issues while 60 percent of the females are usually guided by this principle. In the case of males, only 30 percent of high school leavers do not seem to make this decision while the majority of them actually decide between buying the items which are environmentally friendly if the alternatives are available at similar prices.

**Table 4: Cross tabulation between the level of education, gender and choosing an environmentally-friendly alternative if one of a similar price is available**

		choosing an environmentally-friendly alternative if one of a similar price is available			
		Never	Sometimes	Always	Not applicable
Female	University degree (undergraduate)	11.0%	31.0%	56.0%	2.0%
	Technical diploma/degree		30.0%	60.0%	10.0%
	Completed high school		36.4%	63.6%	
Male	University degree (postgraduate)	50.0%	50.0%		
	University degree (undergraduate)	10.9%	21.8%	65.5%	1.8%
	Technical diploma/degree		22.2%	66.7%	11.1%
	Completed high school	30.0%	10.0%	60.0%	

Table 5 shows the cross tabulation results between the level of income of respondents and choosing environmentally friendly products regardless of the price. The results indicate that 37.2 percent of all the respondents earning less than 25 000 Kenyan Shillings (USD 300) do not usually consider making decisions on environment when purchasing items while 21.8 percent of the respondents in the same income group usually take into account environmental considerations regardless of the price of the items they want to purchase. Those respondents in the income group ranging from (Kenyan Shillings 110,001 - 160,000, USD 1300 -1880) do not usually take into account environmental issues when doing their purchases. 50 percent of the most paid respondents also do not usually take into account environmental considerations when making their purchase decisions

**Table 5: Cross tabulation between the income level and choosing environmentally-friendly products regardless of the price**

Level of income	Choosing environmentally-friendly products regardless of the price			Total
	Never	Sometimes	Always	
Less than Ksh 25,000	37.2%	37.2%	21.8%	100.0%
25,000 - 45,000	27.3%	63.6%	9.1%	100.0%
45,001 - 60,000	28.6%	57.1%	14.3%	100.0%
60,001 - 80,000	50.0%	16.7%	33.3%	100.0%
80,001 - 110,000	57.1%	28.6%	14.3%	100.0%
110,001 - 160,000	50.0%	50.0%		100.0%
160,000 - 300,000	37.5%	25.0%	37.5%	100.0%
300,001 and above	50.0%	33.3%	16.7%	100.0%

### 6.3 Hypothesis Testing

**Table 4: Regression Results**

Variable	Coefficient	Std Error	t-Ratio	P value
C	3.131315	0.113182	27.66615	0.0000
Gender	0.042149	0.110449	0.381616	0.7032
Income	-0.156121	0.367045	-0.425345	0.4253
Age	0.554495	0.128920	4.301088	0.0002
R-squared	0.510819			
Adjusted R-squared	0.417868			
Durbin-Watson stat	1.391710			
F-Statistic	7.647237			
Prob (F-statistic)	0.000014			



## **Testing Hypothesis 1**

H1: Customers who are older will exhibit more buying decisions based on environmental concerns. Studies on the role that socio-demographics play in environmental consciousness and the subsequent „green actions“, have used age, gender, marital status, level of education, and income to profile „green consumers“. However even though the results have not been totally satisfactory for profiling and segmentation of „green consumers“ socio demographics has been seen as the best way to begin segmentation (Wedel and Kamakura, 2000). The exploration of how the age of the consumer is related to green behavior has in the past yielded contradictory results. Jackson, (1983), Zeider and Shechter, (1988) found that younger people were more inclined to exhibit „green behaviour“, while Van Liere and Dunlap, (1980) and Scott and Willits, (1994) found that older people exhibited higher levels of „green behavior“ when compared to younger people.

The study used simple multivariate regression analysis to test the three hypotheses. From the regression analysis the test indicated a positive correlation between the ages of the respondents and the environmental buying decisions. A P-value of 0.0002 implies that the coefficient of the variable „age“ is statistically significant in influencing the buying decisions. The older the person the more the individual considers the environmental issues when making purchase decisions.

The results imply that the older generations are more concerned about environmental issues than the younger people.

## **Testing Hypothesis 2**

H2: Women exhibit more buying decisions based on environmental concerns

The second hypothesis was also tested using the regression analysis. Gender was captured by use of a dummy variable in the regression analysis. (*1:If female, 0: Otherwise*). The regression analysis results indicated that the variable for gender had a P value of 0.7032 at 95 percent confidence interval. This leads us to reject the hypothesis. The results imply that gender does not influence the decisions that individuals make when buying different items. The decision lies on an individual whether rather than on gender male or female. The results

from the cross tabulation shows that women seem to be more conscious when making the buying decisions but a further analysis through regression analysis indicates otherwise. The regression results reveal that gender does not influence at all the decisions that individuals make when buying different items. The decision to be environmentally conscious lies on an individual but not whether one is a man or a female.

### **Testing Hypothesis 3**

H3: Customers from middle income group exhibit more buying decisions based on environmental concerns

The third hypothesis was also tested using the regression analysis. The results lead to the rejection of the hypothesis at 95 percent confidence level. This is because the coefficient of the variable income had a P value of 0.4253. The results mean that the level of income does not influence the buying decisions that people make.

Another key observation from the results reveals that the level of income and the buying decisions are negatively correlated. This means that as income of an individual increases the less that individual takes into account environmental concerns before making purchase decisions.

The coefficient of the constant term had a P-value of 0.000 at 95 percent confidence interval. This may mean that there are other factors which were not included in the model that influence buying decisions of individuals. These could include the level of awareness amongst individuals, the level of education among other factors.

## **7. MANAGERIAL IMPLICATIONS**

Consumers can play a crucial role in environmental issues since they chose the kind of products they buy in the market. Through this they determine the kind of products that are produced and how these products are introduced into the market by manufacturers. However individual consumers can only be influential if they are concerned or interested in a specific issue, in this case „environment“ and are willing to act accordingly when purchasing. Consumers could also block or slow down the introduction of environmentally innovative

products in the market place, because they may not be willing to pay a higher price or to accept a less comfortable option (or have the perception that environmental innovative products are more expensive and less comfortable) as it seems to be the case of the young Kenyan. The managerial implications that can be drawn from these findings are for marketers to use different strategies for different age groups since older people seem to be more concerned about the environment than younger people. Different income groups also behaved differently with people in the higher income bracket who seem to show less concern for environmental issues. The fact that gender does not play a role in influencing environmental buying decisions may help to inform marketing strategies at least in the Kenyan context.

## **8. CONCLUSION**

From literature the environmental buying decisions seem to be influenced by the attitudes and the level of awareness on environmental issues. This study sought to determine the environmental buying decisions made by tertiary level students and how some socio-demographic factors (age, gender and income) influenced those buying decisions. The methodology of the study was quantitative. The findings showed statistically significant differences between the environmental buying behaviour of older people and younger ones. However gender and income did not report a statistical significance. There was a special note regarding income and that was a negative correlation to the environmental buying behaviour, the higher the income level the less the environmental buying decisions seem to have been made. Marketers could take advantage of this information in the design of marketing strategies especially when dealing with environmental issues in the Kenyan market.

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# **EXPENDITURE-BASED SEGMENTATION OF SOUTH AFRICAN BILTONG HUNTERS**

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# **EXPENDITURE-BASED SEGMENTATION OF SOUTH AFRICAN BILTONG HUNTERS**

## **Abstract**

The purpose of this article is to conduct expenditure based segmentation of South Africa biltong hunters. From the literature studied, it can be confirmed that this is the first time that expenditure-based segmentation has been applied to the hunting fraternity. Understanding expenditure patterns and activities are key to strategic planning of facilities in order to be financially sustainable. The sample consisted of all the members of the South African Hunting and Game Conservation Association, the Professional Hunters Association of South Africa and the Confederation of Hunters Associations of South Africa. A total of 676 questionnaires were received back. A stepwise regression was employed. From the research it can be stated that by means of a multiple regression analysis, the estimation of biltong hunters' spending shows that income, age, type of hunter and place of origin (province) are the major factors determining hunting expenditure allocation.

**Key words:** *Biltong hunting, Expenditure-based segmentation, Tourism, Game Farms*

## INTRODUCTION

Wildlife tourism is one of South Africa's greatest assets, which is defined by Higginbottom (2004) as tourism that is based on encounters with non-domestic animals. These encounters can occur either in the animal's natural environment or in captivity. In South Africa, wildlife tourism is strongly based in national, provincial and local parks/nature reserves managed by government agencies and, in the private sector, mostly in nature reserves and game farms of which the latter are the most important (Honey, 1999; Brooks, 2005). The reason for this is that the largest portion of conservation takes place on game farms, which constitute 17.9% of the total land suitable for agriculture in South Africa. This translates into 14.7 million ha (6 330 exempted game farms, which are farms that are adequately fenced for the species hosted on the farm) compared to 3% of land (3.7 million ha) officially protected under South African National Parks (SANParks, the national conservation agency) management (van der Merwe, Saayman & Krugell, 2007). Because there are so many game farms, the competition between hunting products in South Africa is significant (Dorrington, 2007). Added to this, the game farm industry in South Africa differs considerably from the rest of the world in the sense that game farm tourism is practised with indigenous species that are privately owned. In addition, it seems that game-farm tourism in South Africa is well controlled and regulated (Fox & Du Plessis, 2000).

As indicated, game farms play an important role in wildlife tourism (Van der Merwe, 2004; Samuelsson & Stage, 2007; Damm, 2005). Game farms can be defined as land that is adequately fenced, containing a variety of game species that can be used for hunting, meat production, live game sales, and to provide infra- and supra-structures for eco-tourists (Van der Merwe & Saayman, 2004). One of the main sources of income for game farms in southern Africa is hunting, of which biltong hunting is the largest generator of income (Van der Merwe, 2004). Biltong hunting is defined as a cultural activity where wildlife is hunted by means of a rifle, bow or similar weapon for the use of a variety of meat (venison) products such as biltong and salamis (Van der Merwe & Saayman, 2008). Biltong hunting is economically important, generating R3.1 billion in 2005, whereas trophy hunting generated R331 million in 2006 (PHASA, 2006; Van der Merwe & Saayman, 2005). Live game sales contributed R130 million in 2004 whereas venison sales from culling were estimated at R28 Million for the same year (Damm, 2005).



McIntosh, Goeldner and Ritchie (1995) argue that, to be competitive, it is important for the approximately 9 000 game farm owners to develop competitive products that will ensure economic sustainability, and therefore market segmentation is crucial. Damm (2005) states that hunting (biltong hunting) in South Africa is subjected to ‘free market principles’, which increases the competition. One way of surviving in this competitive market is through well-formulated marketing plans based on clearly-identified markets. The latter is achieved by means of market segmentation, which entails recognising tourists’ (hunters) differences as one of the keys to successful marketing. This can lead to a closer matching of tourists’ (hunters) needs with the destination’s products (species) and services (Stanton, Etzel & Walker, 1991). The purpose of this article is to apply expenditure-based segmentation to biltong hunters in South Africa. This will assist game farmers with product development and the promotion of their products. To achieve this, the article is organised as follows: the literature review follows the introduction, the method of research is then discussed and the results of the research are analysed, after which the findings are stated and conclusions are drawn.

## **LITERATURE REVIEW**

The purpose of market segmentation, according to Sarabia and Munuera (1994), is to divide a heterogeneous market into homogeneous sub-groups with regard to one or more of a number of variables, by means of different statistical methods. Marx and Van der Walt (1989) add that market segmentation is a means of defining and targeting specific markets.

The task of identifying a segment can be difficult, partly because there are various bases that can be used. These bases include *demographic* (including gender, age, family life cycle and religion), *psycho-graphic* (divides markets into different groups due to their social class, lifestyle and/or personality characteristics), *geographic* (divides markets into units such as region, country, city, suburb, climate and transport), *behavioural* (including aspects such as desire for benefits, attitudes, knowledge, purchasing occasions, user status, loyalty and economic considerations), and expenditure-based segmentation (divides the market in different spending segments). Marketing strategists may either use one of the segmentation bases or a combination of these

approaches (Burke & Resnick, 1999; Lubbe, 2000; Saayman, 2006; George, 2004; Kotler & Armstrong, 2005; Lamb, Hair, McDaniel, Boshoff & Terblanche., 2004; Proctor, 1996; Saayman, van der Merwe & Pienaar, 2007). However, according to Craggs and Schofield (2006), expenditure-based segmentation has the advantage, when compared to other types of segmentation, that the focus is on identifying segments that will yield the highest return.

Where appropriate, segmentation in general can lead to niche marketing, where the destination can meet most of, or all, of the needs of tourists in that niche segment (Saayman, 2006). Additionally, segmentation can lead to a concentration of resources in markets where the competitive advantage is greatest and the return is highest (Strydom, Cant & Jooste, 2000). A competitive advantage can be gained by considering a market different to that of your competitors (Nickels & Wood, 1997), or a destination can be marketed as a speciality in the chosen market segments (McDonald & Dunbar, 1995). It is advantageous to establish a long-term relationship with a specific tourist group (biltong hunters) (Nickels & Wood, 1997; Perreault & McCarthy, 1999). Other options include designing products to meet the needs of the market place (Semenik, 2002), developing effective and cost-efficient promotional tactics and campaigns (George, 2001), guiding the proper allocation and use of the marketing resources (Strydom, Cant & Jooste, 2000), and the more effective use of scarce resources (Saayman, 2006). It should also be noted that proper segmentation could help in gauging the destination's market position and its image as a competitive destination. This is important in the biltong-hunting industry because of the strong competition between product owners.

From the above, it is clear that game farm owners need to apply market segmentation because the market can no longer be served in a wholesale fashion. By concentrating on a single segment, or a number of segments, marketing efforts can be co-ordinated more efficiently (Slabbert & Saayman, 2004; Kinnear, Berhardt & Krentler, 1995). Segments are evaluated according to a number of criteria, but the essence of the approach is to identify the most relevant characteristics of tourists (hunters) seeking particular sets of benefits from their tourism and leisure purchases.

Saayman, Saayman and Naude (2000), in their research on tourists visiting South Africa, found that different markets (tourists from different countries) have different spending patterns. From

their study, they could distinguish between high- and low-spending foreign markets. Mok and Iverson (2000) used travel expenditure as a segmentation variable in their study of Taiwanese travellers to Guam. They categorised spenders into three categories - light, medium and heavy - based on their total expenditure (Laws, 1997). According to Craggs and Schofield (2006), a wide range of variables influences visitor expenditure.

In defence of this view, the literature review identified the following comparable studies regarding expenditure-based segmentation. Craggs and Schofield (2006), found that gender impacts on spending. Godbey and Graefe (1991), Pouta, Neuvonen and Sievänen (2006) and Opperman (1997) determined that first-time visitors spend more than repeat visitors, whereas research conducted by Gyte and Phelps (1989) and Jang, Bai, Hong and O'Leary (2004) contradicts these findings. Saayman and Saayman (2006) indicated that distance travelled and location have a positive impact on the spending of visitors. Research by Spotts and Mahoney (1991) showed that household income, surprisingly, did not affect respondents' spending, but (Pouta *et al.*, 2006) found that heavy spenders were more likely to have, children in their travel group and stayed longer in the area (length of stay) and visited more attractions (participation). Downward and Lumsdom (2004) and Pouta *et al.* (2006) confirmed that group size and trip duration impact positively on visitor spending. Mehmetoglu (2007) found a series of aspects that impact positively on spending These were type of tourist, trip length, trip purpose and age. Lastly, research by Saayman *et al.* (2007) showed that number of days stayed, group size, province of origin, reason for visit and preferred type of catering impact positively on the spending of tourists visiting a national park.

From the literature discussed above, it can be confirmed that this is the first time that expenditure-based segmentation has been applied to the hunting fraternity. Understanding expenditure patterns and activities are the key to the strategic planning of facilities and for amenities to be financially sustainable. Research also indicated that, in a competitive business environment, marketers need to expand market share and the focus is on tourists who spend more, since this obviously has a greater economic impact. In conclusion, Spotts and Mahoney (1991) stated that travel expenditure is superior to an activity segmentation variable, because

travel expenditures for a given unit of travel activity can vary significantly from one travel party to another.

## **METHOD OF RESEARCH**

The data used in the analysis were gathered over a five-month period (October 2007 to February 2008). The methodology used will be discussed under the following headings: (i) the questionnaire, (ii) the method, and (iii) the statistical analysis.

### **The Questionnaire**

The questionnaire consisted of three sections. In Section A, demographic details were surveyed (marital status, age and province of origin) while Section B focused on spending behaviour and motivational factors (number of persons paid for, number of times the park has been visited, length of stay and amount spent). Section C of the questionnaire consisted of more detailed information concerning the consumers' general behaviour (preferred magazines / newspapers / hunting techniques). For the purpose of this article, the information obtained in Sections A and B were predominantly used.

### **Method**

The sample consisted of all the members of the South African Hunting and Game Conservation Association (SAHGCA) ( $N=21\ 000$ ), the Professional Hunters Association of South Africa (PHASA) ( $N=1\ 039$ ) and the Confederation of Hunters Associations of South Africa (CHASA) ( $N=18\ 000$ ), which provides a total population of  $\pm 40\ 000$ . Two approaches were used to distribute the questionnaire. Firstly, questionnaires were mailed to the members of the SA Hunters and Game Conservation Association along with their monthly magazine (*SA Hunters/Jagters*) during November/December 2007. Secondly, an interactive questionnaire was loaded onto the websites of SAHGCA, PHASA and CHASA during the months of September/October 2007. A total of 676 questionnaires were received back via e-mail, fax and mail. Maree and Pietersen (2007) state that the number of units ( $n$ ) involved in the sample is more important than the percentage of the total population that they represent. An increase in the sample size ( $n$ ), in proportion to the size of the population ( $N$ ) from which the sample is drawn,

results in a decrease in the standard error. It is therefore not necessary to draw a sample larger than 500, as it will have little effect in decreasing the standard error and margin of error (Maree & Pietersen, 2007). Cooper and Emory (1995) also stated that, for general research activities, a sample size (S) of 384 for a population (N) of 100 000 –  $384/10\ 0000= 0.00384$  is scientifically acceptable. Singel (2002) adds by stating that 674 respondents (n) from a population of 50 000 (N) is seen as representative and results in a 95% level of confidence with a  $\pm 3\%$  sampling error.

### Statistical Analysis

Continuous variables (annual gross income, age, length of stay, and total expenditure) were recoded into categories ranging from high to low. Recoding was done in such a manner as to create the maximum number of roughly equally-sized groups, based on the total range of the data. Descriptive statistics for these categories are given below (Table 1).

*Table 1: Descriptive Statistics for the Sample*

		Frequency	Percentage*
Gross Annual Income	Up to R82 400	133	19.90
	R82 401 - R220 000	135	20.20
	R220 001 - R400 000	154	23.10
	R400 001 - R 600 000	119	17.80
	R600 001 and higher	126	18.90
Total Expenditure (Game and Other)	<u>Low</u> : Up to R10 450	223	33.40
	<u>Medium</u> : R10 451 - R22 870	221	33.10
	<u>High</u> : R22 871 and higher	223	33.40
Length of Stay	1 - 3 days	280	41.90
	4 days	212	31.70
	5 or more days	176	26.30
Age	Up to 40 years of age	159	23.80
	41 - 50 years of age	161	24.10

51 - 59 years of age	158	23.70
60 years and older	148	22.20

\* Where percentages do not sum to 100, this is due to missing values.

From Table 1, it can be seen that most of the participants earn between R220 000 and R400 000 per annum ( $M=R473\ 346.37$ ;  $SD=R871\ 924.97$ ). The bulk of the participants (66.5%) spent R22 870 or less on game and other amenities while hunting ( $M=R22\ 115.45$ ;  $SD=R21\ 739.37$ ). The average length of stay is 3.99 days, with a standard deviation of 1.99 (therefore between 2 and 5.98 days). The average age of the participating hunters is 50, with a standard deviation of 12.17 (therefore between 37.83 and 60.17 years of age). Considering the created groups, most hunters (41.90%) fall in the 1-3 days of hunting category. The spread in age groups is quite even, but most hunters are in the 41-50 years age group.

## RESULTS

As a first step, the *total expenditure* of biltong hunters was normalised via a logarithmic transformation. This transformed score was used in subsequent analyses. Apart from continuous data (e.g. Annual Gross Income) there were dichotomous (for example: Gender) or categorical data (e.g. different occupational groupings: Professional, Manager, Self-employed). For categorical variables, dummy variables were created to enter each variable separately in a regression analysis. A stepwise regression was employed (Table 2). This allows all variables to be considered, and only the most relevant to be retained in predicting *total expenditure*. The result of this regression is reported.

Table 2: Stepwise regression with log Total Expenditure as Dependent Variable

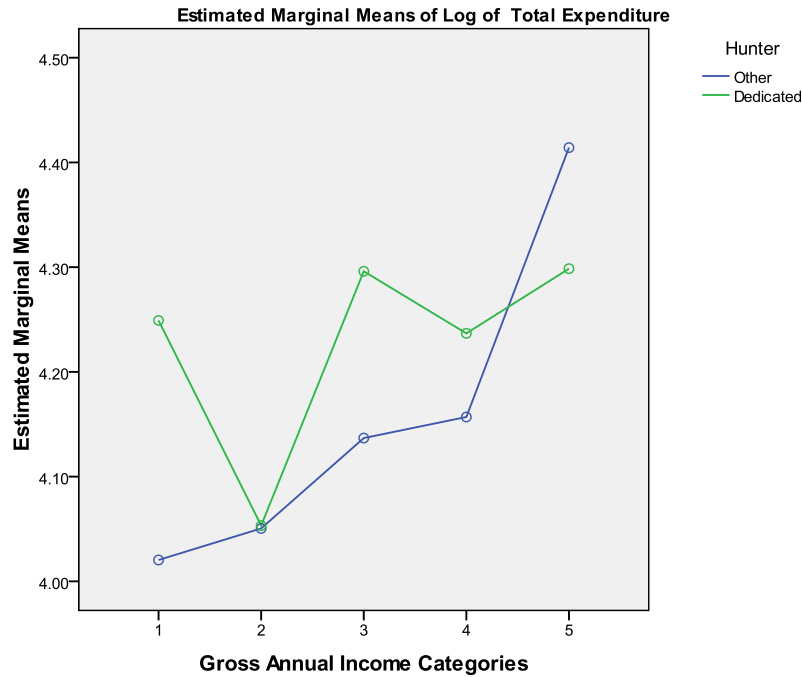
Model	Unstandardized		Standardized						Collinearity			
	Coefficients		Coefficients						Statistics			
	B	Std. Error	Beta	<i>t</i>	<i>p</i>	<i>R</i> <sup>2</sup>	$\Delta R^2$	Zero-order	Partial	Part	Tolerance	VIF
1 (Constant)	4.148	.018		224.241	.000	.037	.037					
Annual Gross Income	8.563E-8	.000	.192	4.780	.000			.192	.192	.192	1.000	1.000
2 (Constant)	4.406	.069		63.670	.000	.061	.024					
Annual Gross Income	8.559E-8	.000	.192	4.834	.000			.192	.195	.192	1.000	1.000
Age	-.005	.001	-.154	-3.869	.000			-.154	-.157	-.154	1.000	1.000
3 (Constant)	4.375	.069		63.284	.000	.080	.019					
Annual Gross Income	8.807E-8	.000	.198	5.016	.000			.192	.202	.198	.998	1.002
Age	-.005	.001	-.143	-3.624	.000			-.154	-.147	-.143	.994	1.006
Hunter_2	.274	.079	.138	3.494	.001			.141	.142	.138	.992	1.008
4 (Constant)	4.329	.070		62.219	.000	.100	.020					
Annual Gross Income	8.698E-8	.000	.195	5.004	.000			.192	.201	.195	.998	1.002
Age	-.005	.001	-.155	-3.955	.000			-.154	-.160	-.154	.987	1.013
Hunter_2	.339	.080	.171	4.253	.000			.141	.172	.166	.943	1.060
Hunter_1	.119	.033	.147	3.645	.000			.097	.148	.142	.940	1.063
5 (Constant)	4.347	.070		62.442	.000	.110	.010					
Annual Gross Income	8.386E-8	.000	.188	4.835	.000			.192	.195	.188	.993	1.007
Age	-.005	.001	-.156	-3.986	.000			-.154	-.162	-.155	.987	1.013
Hunter_2	.332	.079	.167	4.185	.000			.141	.170	.162	.942	1.061
Hunter_1	.118	.033	.145	3.633	.000			.097	.148	.141	.940	1.064
KZN_D	-.123	.048	-.099	-2.545	.011			-.117	-.104	-.099	.994	1.006
6 (Constant)	4.322	.070		61.611	.000	.118	.008					
Annual Gross Income	8.466E-8	.000	.190	4.899	.000			.192	.198	.189	.993	1.007
Age	-.005	.001	-.151	-3.865	.000			-.154	-.157	-.149	.984	1.016
Hunter_2	.345	.079	.174	4.347	.000			.141	.176	.168	.938	1.066
Hunter_1	.118	.032	.145	3.626	.000			.097	.148	.140	.940	1.064
KZN_D	-.116	.048	-.093	-2.397	.017			-.117	-.098	-.093	.990	1.010
Manager_D	.107	.045	.092	2.367	.018			.095	.097	.092	.989	1.011

Multicollinearity diagnostics indicate that the variables are not strongly related. Correlations between the independent variables and dependent variable did however reach statistical significance (Significant correlations with *log total expenditure*: Annual gross income ( $r=0.18$ ,

$p \leq 0.01$ ); Age ( $r = -0.15$ ,  $p \leq 0.01$ ); Gauteng ( $r = 0.11$ ;  $p \leq 0.01$ ); Kwazulu-Natal ( $r = -0.12$ ,  $p \leq 0.01$ ); Northern Cape ( $r = -0.09$ ,  $p \leq 0.05$ ); Manager ( $r = 0.09$ ,  $p \leq 0.05$ ); and type of hunter (Dedicated:  $r = 0.1$ ,  $p \leq 0.05$ ,  $n = 355$ ; Professional:  $r = 0.15$ ,  $p \leq 0.01$ ,  $n = 30$ ). The tolerance and VIF values are in the expected range, with tolerance values larger than 0.10 and VIF values not exceeding 10 (Pallant, 2007), indicating that multicollinearity is not present. The final model (with  $R^2 = 0.12$ ) shows the variables that are statistically significant predictors of *log total expenditure*. These are annual gross income, age of hunters, the type of hunter (professional or dedicated), whether the hunter originates from KwaZulu-Natal, and who indicate their occupational category as 'manager'.

To discount the interaction effects of the predictive variables, they were entered into a univariate analysis of variance as independent variables, with log total expenditure as the dependent variable. Levene's test for equality of variances was not statistically significant, indicating that the assumption of homogeneity of variances holds. Only one interaction proved statistically significant, that being *Gross Annual Income x Age x Hunter 1* ( $p = 0.014$ ). To better understand the interaction, the analysis of variance procedure is performed with only these three variables, and it is then seen that only the interaction of *Gross Annual Income and Hunter 1* is statistically significant. This suggests different patterns of expenditure over the *Gross Annual Income* categories for the 'dedicated' hunter vs. 'professional' and 'occasional' hunter. The difference in means is graphically represented below.





**Figure 1: Income category versus spending**

Figure 1 clearly illustrates that Dedicated Hunters are more represented in the lowest, middle and highest Gross Annual Income categories in terms of expenditure. Comparing the two types of hunters (i.e. ‘dedicated’ and ‘other’), it is seen that the dedicated hunters are more represented in low and medium-high income categories. ‘Other’ hunters (i.e. professional and occasional) in Gross Annual Income category 5 spend statistically significantly larger amounts than all other Income categories.

Next, a series of one-way analysis of variance procedures was employed to understand the interrelatedness of the different predictive variables. The first question of interest is to understand the relation of log total expenditure to type of hunter. The results of the analysis indicate statistically significant differences between all types of hunters. Professional Hunters (Geometric mean = R29 187.71) score higher than Dedicated Hunters (Geometric mean=R16 994.17), and both in turn score higher than Occasional Hunters (Geometric mean=R12 903.28) in terms of total expenditure.

Logically, it is found that hunters in the lowest annual income group score statistically significantly lower than hunters in the highest annual income group, when compared on total expenditure (Geometric mean=R13 167.40 vs. Geometric mean=R22 573.56). Hunters in the second highest income group (Geometric mean=R11 269.38) also score statistically significantly lower in terms of total expenditure when compared to those in the medium (Geometric mean=R17 108.03), high (Geometric mean=R15 969.82), and highest income groups. Those in the high income group also score statistically lower in terms of total expenditure than those in the highest income group.

In terms of age, it was seen that the youngest group (<40) score statistically significantly higher than the eldest group (>60) in terms of total expenditure (Geometric mean=R16 546.27 vs. Geometric mean=R11 635.90). It is also seen that the second age group (41-50 years of age) score higher in terms of total expenditure (Geometric mean=R20 300.19) than the third (51-59 years of age) group (Geometric mean=R14 079.91) as well as the eldest group (>60).

## **FINDINGS**

Based on the results of this article, the following findings can be reported. Firstly, the profile of a high spending hunter is as follows:

- annual income of R600 000 and more
- between the ages of 41 and 50 years
- resident in KwaZulu-Natal
- professional and dedicated hunters

Subsequently, game farm owners can use this information to package products and services to yield higher income. Since these hunters' contact details are captured on a database, it would not be too difficult to disseminate information to them. It would, however, imply a good working relationship between the game farmers associations and hunting associations.

Secondly, dedicated and professional hunters tend to spend more than occasional hunters. This variable has not been found in the literature review because it is very specific to the hunting

sector. This is important since it implies that specialisation in this case leads to higher spending. Reasons for this might be that these hunters have invested significant amounts of money in training and are more committed. Additionally, hunters have to attend training courses and club meetings regularly since the new firearms legislation requires it. Therefore game farmers could use these occasions to promote hunting packages, as well as advertise in magazines that specialise in hunting such as SA Hunter, Game & Hunt and Man Magnum. It has to be borne in mind that our sample included a very small sample of professional hunters ( $n=30$ ), but these may be considered similar to dedicated hunters.

Thirdly, the research indicated that the most lucrative hunters are from KwaZulu-Natal province. This confirms research done by Saayman *et al.* (2007) and Leones, Colby and Crandall (1989) that place of residence has a positive impact on spending. The implication of this finding is that game farm owners need to tap into the KwaZulu-Natal hunters market if they want to attract the high spenders.

Fourthly, hunters of a younger age spend more than older hunters (60 yrs plus). The most lucrative age category is 41-50 yrs (R20 300.19) and 40 yrs and younger (R16 546. 27). This confirms research conducted by Mehmetoglu (2007). The implication therefore is that, to attract higher spenders, game farm owners should market their product to hunters between the ages of 35 and 50 years.

Fifthly, income was found to be a variable influencing spending. This was also reported in research by Mehmetoglu (2007). but contradicts research by Spotts and Mahoney (1991). It therefore implies that hunters who are living in areas with a high income (for example Johannesburg and Cape Town) could be regarded as potential high spending markets.

Lastly, the research found that group size is inconclusive. This is even though researchers such as Spotts and Mahoney (1991) and Downward and Lumsdom (2004) found that large groups spend more, it does not seem to be the case here. The implication is that game farmers should not necessarily focus on trying to attract large groups, but rather smaller groups of 2-4 people by promoting packages specifically designed with them in mind. One reason for this is that larger groups might be sponsored or corporate groups and therefore they do not spend that much.

## CONCLUSION

The purpose of this article was to apply expenditure-based segmentation to biltong hunters in South Africa to identify the high-spending market. Game farm owners can use this information for marketing as well as developing hunting packages to attract this market. Even though this type of research has been conducted in other areas as indicated in the literature review, it is the first of its kind in the hunting sector. Results indicated that hunters with a higher annual income in the age category 41–50 years spend more. Therefore age plays a role and, added to that, the fact that these hunters are from KwaZulu-Natal. This research confirms former research that showed a positive relationship between place of origin and expenditure. The research also contradicted former research since length of stay, group size and number of hunting trips did not have a significant impact on spending. The finding is that the type of hunter impacts on spending. In this case, professional hunters as well as dedicated hunters were identified as hunters that spend the most, compared to occasional hunters. This aspect has not been found in the literature before.

The importance of this research lies in identifying high spenders and thereby confirming and contradicting existing research. Added to this is the fact that this research also confirms that different tourist attractions / activities have different markets and, coupled to that, different determinants driving expenditure. From this research, it would be interesting and relevant to apply the same methodology to trophy hunters and to compare the results. Furthermore, it could assist provinces with high potential in the field of hunting products to offer a more tailor-made product / service.

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## **HOW MEDIUM SIZE BUSINESSES VIEW THE MARKETING CONCEPT**

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**KEYWORDS:** Medium businesses, marketing concept, marketing orientation, market intelligence

## **HOW MEDIUM SIZE BUSINESSES VIEW THE MARKETING CONCEPT**

### **ABSTRACT**

The marketing concept has been introduced as a philosophy in the early 1900s and has developed from a production- into a marketing orientation. Businesses having a marketing orientation carry the pledge of superior business performance through the satisfaction of customers' needs. This study seeks to determine how medium size businesses in Nelson Mandela Metropole view the marketing concept in their businesses. The quantitative research approach was followed. A non-probability convenient sample was drawn and primary data was obtained from 105 medium size businesses utilising a structured questionnaire. Data was analysed with the STATISTICA 10 package. The results revealed that the respondents viewed marketing as an integrated approach in terms of being a philosophy, strategy, methods or tactics and as marketing intelligence. The marketing concept is firstly viewed as a strategy and lastly as methods or tactics. Although most respondents are having a marketing business orientated approach in their businesses, they do not integrate all the views of the marketing concept fully.

### **INTRODUCTION**

The concept of marketing has evolved over time. According to Usui (2008:10-12) in ancient years the marketing concept was simple defined as exchange. After the second World War it was the dominating concept in the United States of America and were exported to Western European countries and Japan. The common philosophy of commerce until the early 1900s was to produce as much as possible because there is a limitless market (Nickels, McHugh & McHugh 2005:398). This was the inception of the production orientated phase. If a business is production orientated, it is concerned with producing more products and improving manufacturing and distribution practices to provide affordable products to customers who buy whatever is available in the market (Lamb, Hair, McDaniel, Boshoff & Terblanche 2004:8). The business becomes very focused on pursuing a low cost strategy to achieve economies of scale and loses sight of the real customer needs (Brassington & Pettitt 2003:13). The business focuses most of their attention and resources on product and process engineering, manufacturing of the products and to manage finances in order to maintain their market share.

By the 1920s, businesses had developed mass production techniques and the production capacity often surpassed market demand (Nickels *et al.* 2005:398). In time, competitors start using the same technology which results in businesses moving to a sales orientated approach by increasing their sales budget and having more aggressive selling campaigns to increase sales (Orville, Walker & Mullins 2008:16-17). Most businesses become selling orientated if there is too much stock and they wish to sell what they make (Lancaster & Reynolds 2002:92). The fundamental problem with having a sales orientation is the lack of understanding of the needs and wants of the consumer (Lamb *et al.* 2004:9).

In 1945, after World War Two ended, a greater demand for goods and services became apparent (Nickels *et al.* 2005:399). Competition was fierce and businesses began to recognise the need to be responsive to the needs, wants and demands of consumers. Many businesses during this time replaced the product- or sales orientation with a marketing orientation (Perreault, Cannon & McCarthy 2008:17). The marketing orientation (concept) focuses on providing products that will meet specific customer needs, meaning that the customer is the focal point of product development (Drummond & Ensor 2005:4). The understanding of customer needs and wants is one of the major underpinning constructs of the marketing concept (Evans, Foxall & Jamal 2006:2). It carries the pledge of superior business performance through the satisfaction of customers' needs (Avlonitis & Gounaris 1997:1).

In this study, the problem statement is firstly highlighted, followed by the objectives of the paper. Thereafter the literature study on the how the marketing concept can be viewed follows. The research methodology outlines how the study was conducted followed by the results with the implications and recommendations derived from the results. Lastly, guidelines on how medium size businesses should integrate the marketing concept views in their businesses are given.

## **PROBLEM STATEMENT**

Marketing is one of the most important of the eight business functions in small, medium and large businesses and is about determining the customer needs and finding ways to satisfy those needs (Lamb *et al.* 2004:24). Marketing is essentially the dealings between the business and its customers (Kotler, Armstrong & Tait 2010:1). Marketing can also be described as the process

by which businesses create value for customers and build strong customer relationships in order to capture value from customers in return (Armstrong *et al.* 2010:1).

Marketing takes place in a very dynamic and potentially exciting world. It reflects economic-, social-, political- and technological trends which influence the customers' attitudes to the business and the products they offer (Brassington & Pettitt 2003:7). Effective marketing starts with the setting of objectives which needs to meet two challenges: either exploring an opportunity of solving a problem (Mann 2010:1). The purpose of marketing is not confined to advertising and selling but covers everything related to what was once described as providing the right product, in the right place, in the right price and at the right time (Lancaster & Reynolds 2002:39). It furthermore creates healthy competition among brands and this increases the level of competence among businesses which results in consumers being able to enjoy better products at more affordable prices (Pandy 2010:1).

Marketing also offer benefits for employees in terms of rewarding career opportunities (Perreault *et al.* 2008:6). It furthermore encourages innovation, which in turn promotes the development of new goods and services and results in consumers having more choices to satisfy their needs. It also fosters competition for consumers' money which causes prices to decrease, leading to economic growth and development. The importance of marketing is evident when a business needs to stay in contact with its customer base and grow and attract new customers to achieve business success (Carson, Gilmore, Perry & Gronhaug 2001:82). A marketing orientated business is grounded on an understanding that sales depend not on an aggressive sales force but rather on a customer's decision to buy a product (Cant, Jooste & Strydom 2000:13).

Most businesses are moving towards a more market-orientated approach as customers have become more informed of the markets and require a wide variety and good quality goods and services. A marketing orientation business is better able to survive and be successful because it is prepared for changes in the desires of customers (Borrington & Stimpson 2002:234). If a business is having a marketing orientation it drives all business decisions and strategies (Kotler *et al.* 2010:23). Marketing orientated businesses have been extensively researched, with many

studies on small-, medium- and micro enterprises (SMMEs) or on small- and medium enterprises (SMEs) but studies on marketing orientated medium size businesses are scarce.

This lead to the following research question to be addressed in this study:

*How do medium size businesses in Nelson Mandela Bay view the marketing concept?*

In the next section the objectives of this study is highlighted.

## **OBJECTIVES**

The primary objective of this study is to explore how medium size businesses in Nelson Mandela Bay view the marketing concept. In order to achieve the primary objectives, the following secondary objectives were formulated:

- To investigate what according to literature the marketing concept entails;
- To explore empirically how medium size businesses view the marketing concept; and
- To provide guidelines on how medium size businesses should integrate the views of the marketing concept in their businesses.

In the next section the concepts used in this study is clarified.

## **CLARIFICATION OF CONCEPTS**

### **Marketing**

Christopher and McDonald (2003:9) define marketing as a process between the needs and expectations of customers and the business's ability and capacity to satisfy these needs and expectations. Marketing can also be defined as a set of activities that businesses partake in order to create exchanges between themselves and their customers (Shrimp 2003:2). Burgess and Bothma (2007:8) define marketing as the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual- and organisational goals. In this study, marketing will be defined as the process of satisfying the needs and expectations of customers within the ability and capacity of the business.

## **Marketing concept**

McKinly, Connor and Ross (2007:56) define the marketing concept as a business which discerns itself with consumer wants and then attempts to produce a product or service to satisfy these wants of the consumers. The marketing concept can be viewed either as (Simpson, Padmore, Taylor & Frecknall-Hughes 2006:361):

- a philosophy;
- a strategy;
- tactics or methods; or
- marketing intelligence.

In this study these four marketing concept views will be explored.

## **Medium size businesses**

Medium size businesses operate in the formal sector and have a more complex management structure and increased division of labour. Medium size businesses employ more than fifty and less than two hundred employees and have less than R20 million in assets (Rwigema & Venter 2005:317).

In the next section the marketing concept views will be further investigated.

## **THE MARKETING CONCEPT VIEWS**

As already mentioned the marketing concept can be viewed as a philosophy, strategy, methods or tactics or as market intelligence. In the next sections these four views are elaborated on.

### **Marketing viewed as a philosophy**

The marketing concept can be regarded as the managerial philosophy which directs the activities of the marketing orientated business and is applicable to small and large, profit-seeking and nonprofit seeking businesses (Pretorius 1997:15-16). Marketing can be regarded as a philosophy irrespective of whether or not the business has staff or a function designated as marketing. If the business is concerned about customer needs and wants and makes a genuine effort to establish



dialogue and build a long term relationship with customers, it views marketing as a philosophy (Baker 2000:19).

Marketing viewed as a business philosophy takes a holistic view and is much broader than selling as it encompasses the entire business and is viewed from customers' perspectives (Honeycutt, Morris & Pitt 2001:18). According to Kotler and Keller (2012:40), the marketing philosophy is the thought behind the product and key to achieving organisational goals more effectively than competitors in creating, delivering and communicating superior customer value to target markets. It emphasises the holistic approach to marketing by firstly identifying customers' needs, and then developing the market and products to satisfy these needs. Furthermore, it requires both long- and short term planning to attain profit in meeting customers' needs.

Marketing as a philosophy is three fold and has a customer-; service- and profit orientation (Nickels *et al.* 2005:399). The marketing philosophy is concerned and focused on the exploitation of the consumer needs and wants of the appropriate markets and to profitably produce the desired products (Viardot 2004:5). Levinson (2007:17) mentions that while marketing as a philosophy has a strong influence on the overall strategy adopted; it is not the only determining factor as the budget and position in the market also affect the strategy chosen. Marketing as a philosophy therefore focuses on building relationships between the business and customers to attain customer loyalty and focuses on creating customer value rather than focusing on the production capabilities of the business (Viardot 2004:5).

### **Marketing viewed as a strategy**

The marketing concept can also be viewed as a strategy. Ehlers and Lazenby (2007:2) describe a marketing strategy as a plan on how a business is going to conduct its business related activities. According to Ferrell and Hartline (2008:32), the marketing strategic process allows a business to give attention to its inadequate resources to increase sales and sustainability, as well as understanding the purpose and objectives of the business. Marketing as a strategy holds that the business should concentrate its limited resources on the best available opportunities that will increase its sales and establishes and maintains a competitive advantage (Drummond & Ensor

2005:4). Furthermore, strategic marketing defines the business activities over a long-term time frame and seeks to develop efficient responses to the changing business environment by analysing the market, segmenting it, viewing and evaluating competitors' products and positions their product to establish a competitive advantage. Rogers (2001:83) explains that strategic marketing planning provides numerous alternatives to accomplish one or more specific objectives, to solve problems or take advantage of opportunities. Knight (2000:14) agrees and suggests that a strategy reflects the business's short-and long-term responses to the challenges and opportunities posed in the business environment.

The essence of developing a marketing strategy is to ensure that the capabilities of the business are matched to the competitive market environment in which it operates, not just today but also into the foreseeable future (Hooley, Piercy & Saunders 2004:29). Perreault *et al.* (2008:33) suggest that the marketing strategy should also specify a target market and a related marketing mix. Varadarajan (2010:119) concurs that a marketing strategy is the combination of decisions made to identify the selection of products, markets, marketing activities and the use of marketing resources and requires an environmental- and organisational behaviour analysis. The marketing concept viewed as a strategy is also about a business's competitiveness in its market and how it applies segmentation, targeting and positioning (Reijonen 2010:279).

According to Phillips and Gully (2009:28), a business may pursue one of three strategies namely: cost leadership-, differentiation- or a specialisation strategy. Businesses that focus on cost leadership are price leaders that offer low price products and businesses that adopt the differentiation- and specialisation strategies focus on producing different and special products. Baker (2007:663-70) and Lamb *et al.* (2004:178-180) on the other hand, suggest the following strategies for selecting target markets:

- *Undifferentiated targeting*, where it is assumed that all members in the market have similar needs that can be met with a single marketing mix (mass marketing);
- *Concentrated targeting*, which focuses all marketing efforts on a single market segment; or
- *Multi-segment targeting*, which uses two or more marketing mixes to target two or more market segments.

Knight (2000:28) indicates that a marketing strategy should lead to application of tactics that help the firm to succeed. Blem (2001:28) is in congruence with Knight (2000:28) that different strategies require different tactics or implementation methods.

### **Marketing viewed as tactics or methods**

The marketing concept can also be viewed as tactics or methods. Kotler (2000:28) describes tactics as actions that satisfy the demands of buyers in specific markets which lead to desired corporate outcomes. Marketing tactics can be defined as the analysis and implementation of the marketing mix to influence the performance or growth of the business (Simpson *et al.* 2006:365). Tactics are focused on obtaining the most of available resources, and encourage effective and efficient communication with the customers of the business (Nwankwo & Gbadamosi 2011:46). Marketing tactics is centered in the use of the marketing mix (Reijonen 2010:280). All the marketing mix elements as tactics are equally important and should be carefully and properly selected, used in the right proportion, to enhance and make the product attractive to customers (Saxena 2006:27).

Marketing tactics can be manipulated to attract more sales (Kimmel & Audrain-Pontevia 2010:248). The overall objective of marketing tactics is to influence the demand for a product or service (Evan & Berman 1982:48). Marketing tactics is concerned with daily activities such as product management, pricing, distribution and promotion (Honeycutt *et al.* 2001:25). In other words, a fundamental part of any marketing strategy is the four Ps of marketing, known as the marketing mix (Kotler *et al.* 2010:64-66).

The right product should be selected for the target group (Hooley *et al.* 2004:31). Bosch, Tait and Venter (2006:426) mention that certain products are designed for a particular product markets and that the business should price its products or services appropriately and distribute and make it available to where the consumers need it. Decisions about products or services are crucial to any business (Reiter 2011:5). Another issue is product planning in terms of the composition of the product line, the design of individual offerings in the line and the distribution system and pricing (Arnold 2007:2). Marketing tactics or methods include promoting products and services in media such as newspapers, magazines, radio, television, billboards or even

through the internet (Arnold 2007:2). Furthermore, the customers may even promote the products of the business to their family and friends using word-of-mouth advertising.

According to Blythe (2006:279) tactics must be approached in the following manner:

- Marketers should try to do something that the competition has not yet thought of;
- Everyone who is involved in the day-to-day application of the plans should be consulted;
- Results should always be monitored, even though most marketing activities do not produce immediate results;
- Messages given to customers, middlemen and suppliers should always be consistent;
- Competitors are likely to respond in some way, so markets should try to anticipate their response when formulating plans.

Marketing tactics nowadays tend to focus more on long-term, mutually beneficial relationships with customers and not just on the acquisition of new customers (Peng & Wang 2006:25). Marketing tactics also focus on methods taken by the business to cope with short-term opportunities and threats (Lines, Marcouse & Martin 2000:280).

### **Marketing viewed as marketing intelligence**

The marketing concept could also be viewed as marketing intelligence. Marketing intelligence is the information relevant to a business's market, gathered and analysed specifically for the purpose of accurate and confident decision making in determining market opportunities, the market penetration strategy and in developing marketing metrics (McCarthy & Perreault 2006:1). Marketing intelligence also includes the organised collection and analysis of publicly available information, with regard to the competitors of the business and developments in the marketplace (Kotler *et al.* 2010:113). According to Jenster and Soilen (2009:14), a business does not obtain any long-term competitive advantage by only considering its product and the internal environment.

Marketing intelligence considers customers opinions based on the exogenous market factors of current- and future customer needs and performance (Blankson & Cheng 2005:318). According to Callingham (2004:234), marketing intelligence examines the customer's perspective of market

research. In order to be successful, a business must engage in marketing intelligence in order to become aware of customers-, suppliers- and competitors actions. Failure to take this into account might result in failing to spot profitable opportunities or not anticipating how to deal with possible threats. Marketing intelligence involves scanning newspapers, trade magazines, business journal and reports, economic forecasts and other media to obtain information (Yoffie & Kwak 2002:22). The main aim of marketing intelligence is to (Kotler *et al.* 2010:113):

- improve strategic decision making;
- evaluate the actions of competitors; and
- alert businesses of opportunities and threats that may arise.

Thus, marketing intelligence involves gathering information about competitors' business activities, strategies and financial position (Lamb *et al.* 2004:132). Heinrichs and Lim (2008:93) suggest that businesses increasingly have access to the same marketing intelligence and must use information obtained wisely. Marketing intelligence enables businesses to fully understand, analyse and assess the internal- and external environment related to the business's customers, competitors, markets and industry to enhance the decision making process (Aaker, Kuman & Day 2007:4). Furthermore, it requires the integration of computer intelligence, marketing research, market analysis, business and financial analysis information. Jenster and Soilen (2009:159) regard marketing intelligence as an important activity because it links a business to its external environment and makes it possible for management to make informed and rational decisions about markets, competitors and strategy.

The tactics behind marketing intelligence are based on personal observation and contact information, rather than formal research (Stokes 2000:1). The domain of marketing intelligence is product decisions especially with regard to customer segmentation-, branding- and pricing decisions (Aaker *et al.* 2007:4). Marketing intelligence also assists with (Aaker *et al.* 2007:4):

- making market estimations;
- competitive benchmarking and distribution;
- quantitative analysis of market forces by estimating the size of the market;
- quantitative and behavioural analysis of the market; and
- forecasting future needs.

The goal of marketing intelligence is to improve strategic decision making and tracking competitors' actions to provide early warnings of opportunities and threats (Kotler *et al.* 2010:113). Rasiel and Friga (2001:54) indicate that medium businesses have a larger research department or corporate marketing research unit together with smaller scale divisional marketing units to engage in marketing intelligence. Most importantly, marketing intelligence was regarded as an important success factor in medium businesses (Reijonen & Komppula 2010:19).

In the next section the research methodology is presented.

## **RESEARCH METHODOLOGY**

The research methodology is described next.

### **Research paradigm**

The research paradigm adopted in this study is the quantitative research paradigm. The main approaches followed are exploratory- and descriptive research aimed at exploring and describing how medium size businesses view the marketing concept.

### **The sample**

The population of this study could be regarded as all medium size businesses in South Africa. The scope of the survey was across the Nelson Mandela Metropolitan area, Eastern Cape Province, in South Africa. A non-probability convenient sample was drawn. The requirement for inclusion in the sample was that the business must have between 50 and 200 employees (medium size). As there is no existing database of the population available, it could not be determined beforehand what the size of the sample would be. An attempt was made to interview as many medium size businesses as possible. The final sample comprised 105 respondents.

### **Data collection**

Secondary data was collected by means of a literature search, including textbooks, journal articles and the Internet, and primary data by means of a survey. Fieldworkers have conducted the interviews during business hours depending on the availability of the respondents. Fieldworkers either conduct the interview (if respondents had time for it) or left the

questionnaires with the respondent to be completed. A specific time was given for the return of the completed self-administered questionnaires. A business card was attached to the questionnaires to contact respondents in event some questions were not answered or incorrectly answered.

### **Research instrument**

A structured questionnaire was used to collect the data. Care was taken with regards to the wording in the questionnaire so that the respondents could understand it. The measuring instrument (questionnaire) consists of the following three sections:

- Sections A investigated how the business owner view the marketing concept, using a four point Likert scale indicating the importance of each statement (very important, important, unimportant and not applicable);
- Section B explored the business orientation using a ranking scale; and
- Section C canvassed the biographical data of respondents and their businesses using nominal data categories.

### **Data analysis**

A thorough editing process resulted in some questionnaires being discarded due to incompleteness. Data was captured on an Excel spreadsheet and descriptive statistics were used to analyse the results using the statistical software STATISTICA 10. The results were presented in tables indicating the frequencies of responses, means and standard deviation. Correlation analysis was also utilised in order to measure the fit of the items to the four marketing concept views. The measuring scale was tested for reliability by calculating the Cronbach alpha coefficients.

### **Reliability and validity**

Both face- and content validity were also ensured. Face validity was ensured as experts in the marketing fields review the questionnaire. Content validity was ensured as the questionnaire contained questions based on the literature study. To ensure reliability, a pilot study was conducted with 10 medium size business owners. Cronbach alpha values were also obtained to assess the reliability of the measuring instrument. As the contact details of respondents were

available (attached business card), respondents could be contacted to validate answers, if necessary. The outcome of this study could be applied to any other medium size businesses in any region of South Africa as they normally view the marketing concept similarly.

## **EMPIRICAL RESULTS**

This report gives a useful estimate of how respondents view the marketing concept in their businesses and which business orientation they use in the business, but not precise values as any sample survey is subjected to error. Sampling errors were mostly eliminated as details of the types of businesses indicated that they are indeed medium size businesses (having between 50 and 200 employees) and their contact details were available. Disregarding incomplete questionnaires from the analysis also eliminated reporting errors.

### **Results of the internal reliability of the measurement instrument**

The scale of the measuring instrument was assessed for reliability using Cronbach alpha values as can be seen in Table 1.

**Table 1: Cronbach's alpha for marketing concept views**

<b>Items</b>	<b>Marketing concept views</b>	<b>Cronbach Alpha values</b>
1-7	Philosophy (A1)	0.693645
8-14	Strategy (A2)	0.733914
15-21	Methods or tactics (A3)	0.650155
22-28	Marketing intelligence (A4)	0.770817

As can be seen in Table 1, all Cronbach Alpha values exceed 0.6 which is acceptable and indicate the internal reliability of the four variables (marketing concept views) in the measuring instrument.

### **Results of the biographical data**

A total number of 105 medium businesses were interviewed in the Nelson Mandela Metropole. The majority of businesses (40%) were in the service industry, followed by the retail sector



(22%) and food catering and accommodation sector (10%). Table 2 shows the results of the biographical data of the respondents and their businesses.

**Table 2: Biographical data of respondents and their businesses**

<b>Biographical data</b>		<b>%</b>
Gender	Male	75
	Female	25
Ethnic group	Black	20
	White	60
	Coloured	15
	Asian	5
Age of respondents	18 - 25	4
	26 - 35	31
	36 - 45	35
	46 - 55	26
	56 - 65	3
	> 65	1
Position in business	Owner	16
	Co-owner	12
	Manager	55
	Marketing officer	17
Number of years employed in business	< 1	9
	2 - 3	18
	4 - 5	22
	> 5	51

More males (75%) than females participated in this survey. The highest number of respondents was in the 26 to 55 years of age range with a few younger than 26 years or older than 55 years. Either the younger respondents were still at school, or are furthering their education and did not yet enter the job market. Those older than 55 years have probably retired. Just over one third of the respondents interviewed were either the owner or co-owner and more than half were managers. A few marketing officers also completed the questionnaire. All these respondents are thus knowledgeable on marketing issues and could give a true reflection of how the marketing concept is viewed in their businesses.

### **Results of the descriptive statistics on the marketing concept views**

As suggested in the literature review, there are four ways in which the marketing concept can be viewed: as a philosophy, strategy, methods or tactics or as marketing intelligence. The results of the descriptive statistics of the marketing concept views are presented in Table 3.

**Table 3: Results of the descriptive statistics of the marketing concept views**

<b>Variable</b>	<b>Marketing concept views</b>	<b>Mean</b>	<b>Standard deviation</b>
A1	Philosophy	1.76	0.29
A2	Strategy	2.56	0.41
A3	Methods or tactics	1.55	0.33
A4	Marketing intelligence	2.46	0.49

It seems that the mean is clustered around point two or three, indicating that respondents regarded all the marketing concept views either as important or as very important. The least favoured marketing concept view was as a method or tactic (mean of 1.55) and the most favoured view as a strategy (mean of 2.56). In terms of viewing the marketing concept as a tactic, respondents seem to value segmenting their market and targeting certain customers as not that important. This could be ascribed to the fact that the medium size business owners will try to target as many segments as possible to increase sales, market share and profit. With regards to the standard deviation, there were not remarkable differences in how respondents view all four marketing concept views. The marketing concept viewed as marketing intelligence had the biggest variances in responses (standard deviation of 0.49).

Further analysis indicates the extent to which respondents regard the four marketing concept views are indicated in Table 4. The frequency refers to the total number of times that the statements of the specific variable were selected by respondents in the scale measurement. The percentages were calculated by dividing the frequency by the total number of responses of the statements in a particular variable. The variables (marketing concept views) were ranked according to the highest very important percentage.

**Table 4: Frequency distribution of the marketing concept views**

Marketing concept views	Measurement scale	f	%	Ranking based on agree
Philosophy (A1)	Very important	735	67	2
	Important	271	25	
	Unimportant	62	6	
	Not applicable	19	2	
Strategy (A2)	Very important	734	70	1
	Important	252	24	
	Unimportant	56	5	
	Not applicable	9	1	
Methods or tactics (A3)	Very important	734	56	4
	Important	387	30	
	Unimportant	145	11	
	Not applicable	39	3	
Marketing intelligence (A4)	Very important	733	65	3
	Important	280	25	
	Unimportant	85	8	
	Not applicable	23	2	

As can be seen in Table 4, respondents view the marketing concept firstly as a strategy, then as a philosophy, thereafter as marketing intelligence and lastly as a method or tactic. When comparing these results with the results of the means of the variables there are some differences because the marketing concept as marketing intelligence obtained a higher mean value than philosophy. More respondents thus view the marketing concept as a philosophy but on average they view the marketing concept as marketing intelligence as taking precedence. It must be noted that these results mirror the standard deviation results as marketing intelligence had the highest standard deviation and philosophy the lowest standard deviation.

#### **Results of the correlation of the variables of the marketing concept**

The results of the four variables (views) were also subjected to a correlation analysis as presented in Table 5.

**Table 5: Results of the correlation between the four variables (marketing concept views)**

Variables	Correlation			
	A1	A2	A3	A4
A1	1.000000	<b>0.610085</b>	<b>0.489599</b>	<b>0.609325</b>
A2	<b>0.610085</b>	1.000000	<b>0.669554</b>	<b>0.724307</b>
A3	<b>0.489599</b>	<b>0.669554</b>	1.000000	<b>0.687786</b>
A4	<b>0.609325</b>	<b>0.724307</b>	<b>0.687786</b>	1.000000

\*p < 0.05 (N = 105)

From Table 5, it is clear that all four variables indicate strong inter-item correlation. A positive correlation coefficient indicates a strong relationship between the variables. None of the variables showed a negative (reversed) relationship. The four variables were the marketing concept as a philosophy, strategy, methods or tactics and marketing intelligence. The variables with the strongest positive relationships were the marketing concept viewed as a strategy and as marketing intelligence. The variables with the weakest positive relationships were the marketing concept viewed as a philosophy or as a method and tactic. It seems that respondents therefore viewed the marketing concept more so as a strategy and marketing intelligence than as a philosophy or a tactic and method. The complete correlation matrix will not be reported in this paper.

### Results of the business orientation

While measuring the business orientation, respondents were required to point out which one of the three variables they view as the most important for their business. The three variables were product orientation (customers will prefer superior quality products), sales orientation (well trained sales force can sell any product) and marketing orientation (satisfying customers will lead to success). The results of the business orientation are presented in Table 6.

**Table 6: Business orientation**

Business orientation	Ranking choice	%
Product orientation	First	46.2
	Second	30.8
	Third	23.1
Selling orientation	First	37.5
	Second	16.3
	Third	46.2

<b>Business orientation</b>	<b>Ranking choice</b>	<b>%</b>
Marketing orientation	First	64.1
	Second	25.0
	Third	10.6

From the table, it is clear that the majority (64.1%) of respondents in this sample argue that satisfying customers will lead to business success which clearly shows they follow a marketing orientated approach in their businesses. Respondents have chosen a product orientation approach (customers prefer superior quality products) as their second choice (46.2) and their least favoured approach was being selling orientated (a well-trained sales force can sell any product).

### **LIMITATIONS AND FURTHER RESEARCH**

Finally, although this study has made a contribution to the body of knowledge on how medium size business owners viewed the marketing concept, there is a need to expand the study to include small businesses. Many medium businesses have started as small business and since the failure rate for new small businesses is high, the results of such study could provide insight into whether the small businesses lack understanding of the importance of marketing in their businesses. Another limitation is that the sample size might not be large enough to generalise results. More advanced statistical analysis could also provide more information regarding what is influencing the different views of the respondents such as their gender, age, etc.

### **CONCLUSIONS AND RECOMMENDATIONS**

According to literature, the marketing concept can be viewed as a philosophy, strategy, methods and tactics and as marketing intelligence. This is confirmed as the marketing concept is viewed as a philosophy, strategy, methods and tactics and as marketing intelligence by respondents (marketing managers and officers, as well as business owners of medium sized businesses) in the Nelson Mandela Metropole. Most of the statements testing how important respondents view the items were regarded as either important or very important, so it seems that respondents integrate all the marketing concept views in some or other way in their business activities. The correlation results also confirm that there is strong correlation between the four variables. The Cronbach alpha values indicate that there is inter-item reliability.

Further analysis showed that respondents however, seem to favour viewing the marketing concept as a strategy. This means they strategise about how to offer quality products, influence consumers' wants and demand for products or services, ensure they have good internal and external marketing systems, acknowledge that changes in the business environment can affect them, engage in marketing planning and inform consumers' about their businesses and products and services. Medium size business owners must ensure that their strategy reflects the business's short- and long-term responses to the challenges and opportunities posed in the business environment.

The least favoured view of respondents is the marketing concept as methods or tactics; in particular, they do not seem interested in segmenting their market or targeting only certain customers. Respondents need to understand that strategies are executed using certain marketing methods or tactics. It is recommended that medium size business owners must be informed of the importance of marketing tactics, as the overall objective of employing marketing tactics is to increase the demand for a product or service. The importance of marketing tactics cannot be emphasised enough as it is concerned with daily activities in the business such as managing products, pricing, place and promotion.

It is recommended that medium size business owners must also not underestimate the importance of marketing intelligence as it can influence their strategies. Marketing intelligence can provide the medium size business owner with an understanding what is taking place in the market place. In order to be successful, medium size businesses must conduct marketing intelligence in order to be aware of endeavors of customers, suppliers and competitors. Failure to do so could result in not spotting profitable opportunities or not being able to anticipate threats. Marketing intelligence is an important activity because it can link the medium size business to its external environment and makes it possible for business owners and management alike to make informed and rational decisions about markets, competitors and strategies.

However, medium size business owners must realise that before embarking on determining strategies for the business, they will have to engage into some prior thinking (philosophy) of how

they will approach marketing in their businesses. It was emphasized in the literature review that the marketing philosophy has a strong influence on the overall strategy of the business. Furthermore, superior business performance are improved through the satisfaction of customers' needs. Based on the empirical results respondents (marketing managers, officers and businesses owners of medium size businesses) follow a marketing orientated business approach as they believe satisfying their customers' needs will lead to business success. They viewed the selling orientation as the least favoured business approach. The marketing orientation approach is the most sensible approach to follow as customer satisfaction can ensure customer retention and loyalty, so that they will not easily abscond to competitors. Medium size business owners can use these satisfied customers as referrals to recruit new customers for the business via word-of-mouth advertising and so increase their sales, market share and ultimately profits.

To conclude:

The marketing concepts views are an integrated approach. The marketing concept should initially be viewed as a philosophy. This philosophy should guide the strategies of the business. To enable the business to execute their strategies will require using the right methods or tactics in terms of the four Ps. Both strategies and methods and tactics depend on analysing information obtained from engaging in marketing intelligence.

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**INVESTIGATING CUSTOMER RELATIONSHIP MANAGEMENT  
(CRM) AS AN INTERVENING VARIABLE IN THE ESTABLISHMENT  
OF CUSTOMER LOYALTY**

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# **INVESTIGATING CUSTOMER RELATIONSHIP MANAGEMENT (CRM) AS AN INTERVENING VARIABLE IN THE ESTABLISHMENT OF CUSTOMER LOYALTY**

## **ABSTRACT**

CRM is increasingly being recognised as a strategic approach to developing marketing relationships with individual customers. It is an organisation-wide commitment to identify individual customers and create a relationship between the organisation and its customers as long as the relationship is mutually beneficial. The primary objective of this study is to investigate the influence of selected independent variables, trust, commitment and two-way communication on customer loyalty via CRM as the intervening variable at a South African long-term insurance organisation. Primary data was gathered using a questionnaire, with items referring to CRM, customer loyalty, trust, commitment and two-way communication. The sample consisted of 254 customers in four major centres in South Africa. Data was factor-analysed. The independent variables, trust and commitment, exerted a statistically significant positive influence on the intervening variable (CRM), while two-way communication exerted a statistically significant negative influence on the intervening variable (CRM). The intervening variable (CRM) positively influenced the dependent variable (customer loyalty). Therefore, if a long-term insurance organisation exhibits trustworthy behaviour, shows genuine commitment to service, and communicates timely and accurately, greater loyalty will be created among customers.

Key words: Long-term insurance organisation, Customer Relationship Management (CRM), customer loyalty, trust, commitment and two-way communication

## INTRODUCTION

Over the past 20 years, the importance of the service industries to the world economy has grown tremendously. In 2005 the service sector contributed to over 80% of the employment and Gross Domestic Product (GDP) of the United States (Zeithaml, Bitner & Gremler, 2006). In the South African economy the service sector contributed 74.6% of South Africa's total GDP in 2009 (Datamonitor, 2010a). The services sector is spearheaded by the financial services sector. The services sector employs 65% of the total workforce in South Africa (Datamonitor, 2010b).

An organisation that wants to succeed in today's global competitive market, where customers are empowered and brand loyalty erosion is increasing, will have to move to customer relationship management (CRM). Customer relationship management enables organisations to provide excellent real-time customer service through the effective use of individual account information (Kotler & Keller, 2006). This requires a more complex approach, since organisations need to investigate customer needs, they have to build relationships with both existing and potential customers, and they will have to satisfy their customers' needs (Rootman, 2006). Long-term insurance organisations will therefore require a loyal customer base to secure their sustainability. Loyal customers can be generated through CRM. CRM can assist long-term insurance organisations in building long-term beneficial relationships with customers, which has a direct influence on the value proposition to customers, and the competitive position of the organisation in the market. This will lead to customer loyalty and increased profits for the organisation.

Relationship Marketing and its application, CRM, focus on the long-term profitability of keeping customers for life (Sauers, 2008). This requires two-way dialogue between the organisation and the customer to develop a relationship (Du Plessis, Jooste & Strydom, 2005). The literature stipulates that trust, commitment and two-way communication form important parts of CRM. Before a customer will transact with a long-term insurance organisation, he/she must trust the long-term insurance organisation. Trust is based on repeated, reliable interactions and follow-through on expected behaviours (Sauers, 2008).

This paper includes a literature review of CRM and customer loyalty, and an explanation of the problem that was investigated. The research objectives, hypotheses and methodology are then discussed. Thereafter the empirical results are discussed, followed by management implications and recommendations.

## **LITERATURE REVIEW**

### **The long-term insurance industry in South Africa**

The South African insurance market generated total gross written premiums of \$24.2 billion in 2009 representing a compound annual growth rate (CAGR) of 8.9% for the period spanning 2005-2010. The long-term insurance segment was the market's most lucrative in 2008, generating gross written premiums of \$14.7 billion, equivalent to 61.5% of the market's overall value. The performance of the market is forecast to accelerate with an anticipated CAGR of 9.7% for the five-year period 2009-2014, which is expected to drive the market to a value of \$38.5 billion by the end of 2013 (Datamonitor, 2010a).

### **Customer Relationship Management (CRM)**

Berndt, Du Plessis, Klopper, Lubbe and Roberts-Lombard (2009) defined CRM as 'an enterprise-wide commitment to identify the individual customers of an organisation, and to create a relationship between the organisation and these customers as long as the relationship is mutually beneficial. CRM evolved from organisation processes such as RM and the increased emphasis on improved customer retention through the effective management of customer relationships. CRM is important for service organisations. If organisations desire a good relationship with customers, they must ensure that their management and staff are trustworthy and show a strong commitment to service (Ndubisi & Wah, 2005). Trust and commitment are key elements for retaining customers (Du Plessis *et al.*, 2005). CRM provides a transition from a transaction-based to a relationship-based model that concentrates on the acquisition, development and retention of profitable customer relationships (Baran, Galka & Strunk, 2008). Trust emerges as parties share experiences and interpret and assess each other's motives. As the parties learn more about one another, risk and doubt are reduced (Lehmuskallio, 2009). Two-way communication with customers is made possible by advances in information and telecommunication systems. All the communication with customers, when it is integrated into the organisation, recorded and managed, allows the

relationships with customers to develop and to be maintained (Baran, Galka & Strunk, 2008). Similar to trust, commitment appears to be one of the most important variables in understanding relationships, and it is a useful construct for measuring the likelihood of customer loyalty, as well as for predicting future purchase frequency (Seubsman, Kelly, Yuthapornpinit & Sleigh, 2009). Long-term relationships with customers can successfully be created, reinforced and maintained by building the customers' trust in an organisation over time, demonstrating a commitment by the organisation to service, and communicating with the customers in a timely, reliable and pro-active fashion (Morgan & Hunt, 1994).

### **Three important components of CRM**

The only real sustainable business growth strategy is through a mutualistic symbiotic relationship with customers, which allows the business to understand the customers' needs more clearly and to create and deliver superior value. Organisations must fulfil their promises to customers, as this will lead to customer trust, satisfaction, customer retention and long-term profitability for the organisation. Scholars have listed the virtues that have been theorised in the CRM literature as, trust, commitment and two-way communication (Ndubisi & Wah, 2005; Buttle, 2004).

### **Trust**

Before a relationship can exist, both parties must mutually perceive that the relationship exists. Relationships are therefore a series of transactions which build an awareness of a shared relationship through trust and commitment. Higher levels of trust and commitment in turn are associated with higher levels of customer retention, and this leads to increased organisational profitability (Mamaghani, 2009). When trust is focused, there is a generalised sense of confidence and security in the other party. Both parties believe that the one party will act in the interest of the other, that the other party will be credible, and that the other party has the necessary expertise (Helkkula & Kelleher, 2010). Trust can be viewed as a partner's belief that the other partner will perform actions that will result in positive outcomes, as well as not take actions that will result in negative outcomes (Morgan & Hunt, 1994). The trusting relationships between customers and organisations are associated with overall positive outcomes, and trust in an organisation should increase the benefit derived from transacting with the organisation (Botha & Van Rensburg, 2010).



## **Commitment**

Commitment is an essential ingredient for successful, long-term relationships. Commitment arises from trust, shared values and the belief that partners will be difficult to replace. Commitment motivates partners to cooperate in order to preserve the relationship investments. Commitment means that partners forgo short-term alternatives in favour of long-term benefits associated with current partners (Morgan & Hunt, 1994). Customers will only make commitments to trustworthy partners because commitment entails vulnerability, and leaves them open to opportunism (Buttle, 2004). Commitment is higher among individuals who believe that they receive more value from a relationship therefore highly committed customers would be willing to reciprocate effort on behalf of an organisation due to past benefits received (Biedenbach & Marell, 2010). Commitment in this context refers to both parties understanding that they are in the market together for the long run. They are willing to make sacrifices for their partners, because they are mutually dependent upon each other in their quest to achieve long-term returns on their psychological and financial investments (Baran *et al.*, 2008). For example, the way in which employees of an organisation perform their tasks can lead to trust, and this will have a significant impact on the commitment from the customer, and therefore result in customer loyalty (Angelis, Pinheiro de Lima & Siraliova, 2010).

## **Two-way communication**

Today there is a new view of communication as an interactive dialogue between the organisation and its customers which takes place during the pre-selling, selling, consuming and post-consuming stages. Communication in a relationship means providing information that can be trusted, providing information when problems occur and fulfilling promises (Ndubisi & Wah, 2005). For a customer to perceive a relationship as valuable, the customer's needs must be fulfilled. The needs of the customers can be established through gathering information from them. This can take place during face-to-face interviews with customers, focus groups and observing the services customers purchase (Du Plessis *et al.*, 2005). Employees are at the front line of service and they know more than anyone else in the organisation what customers want. Having open communication channels between employees and management (upward communication) can prevent service problems before they occur and minimise them when they arise (Zeithaml *et al.*, 2006).

## **Customer loyalty**

The aim of relationship marketing is the establishment and maintenance of long-term relationships with customers (Zeithaml *et al.*, 2006). Organisations understand that it is considerably more profitable to keep and satisfy existing customers, than to constantly renew a strongly-churning customer base. To make relationship marketing work, marketers have adopted a customer management orientation, which emphasises the importance of customer lifetime value, retention and the dynamic nature of a person's customer-organisation relationship over time (Lian, Chen & Wang, 2008). The rationale behind CRM is that it improves organisational performance by enhancing customer satisfaction and driving up customer loyalty. A model has been designed to explain this logic, and it is called the satisfaction-profit chain (Piercy & Lande, 2009). Customer satisfaction increases because the insight into customers allows organisations to understand them better, and through this, organisations create improved customer value propositions. As customer satisfaction rises, so does customer repurchase intention. This then influences the actual purchasing behaviour, which significantly impacts on organisational performance (Helkkula & Kelleher, 2010; Buttle, 2004).

## **PROBLEM INVESTIGATED**

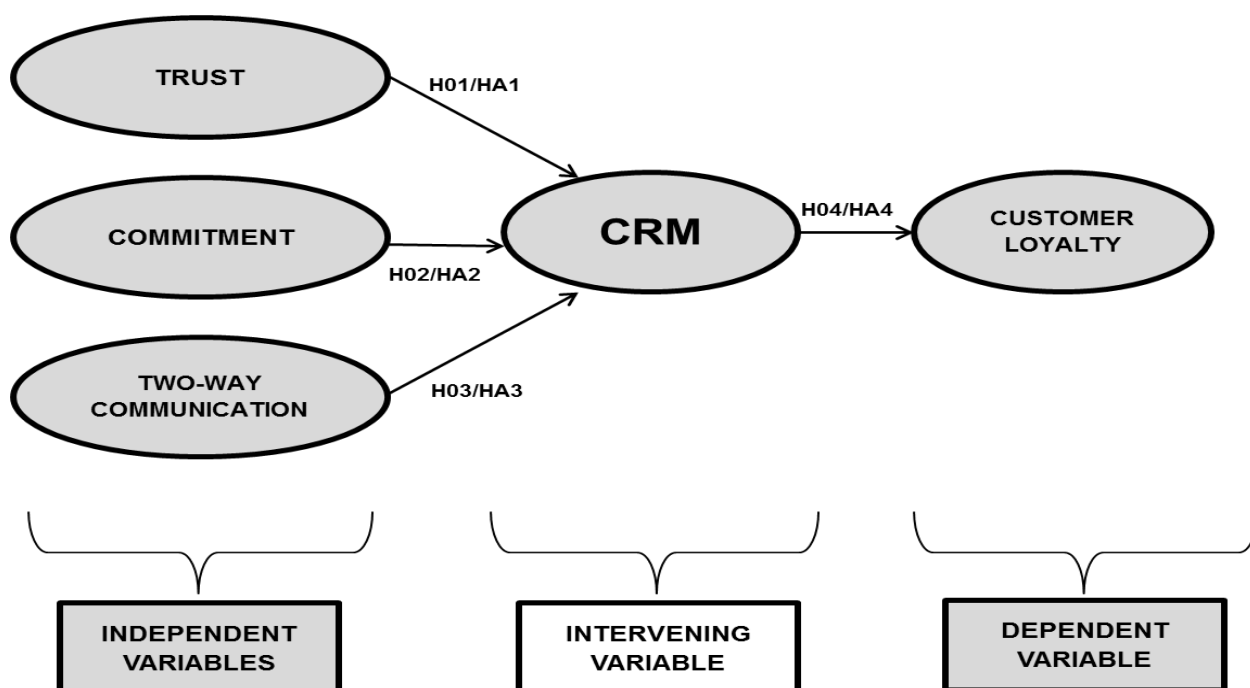
Statistics released by the Life Offices Association (2010), indicated that in the second half of 2009 surrenders of policies increased. Lapsed premiums also increased by 18% as compared to the previous half-year, and 31% compared to the corresponding period in 2008. A policy is surrendered when the policy holder stops paying the premiums and withdraws the reduced fund value of the policy before maturity. A lapse occurs when the policy holder stops paying premiums before the fund value exceeds the unrecovered costs, meaning that the paid-up or surrender value is zero. In both cases, customers are lost as they terminate their relationship with the long-term insurance organisation. The purpose of CRM is to increase customer satisfaction, improve customer perception of service quality and increase customer loyalty (Baran *et al.*, 2008). CRM applied correctly leads to customer loyalty, and loyal customers are usually more profitable (Rootman, 2006).

To retain existing customers in the current economic climate where customers are lapsing their long-term insurance policies because of the unsure economic future, long-term

insurance organisations will have to understand how trust, commitment and two-way communication through the application of CRM can contribute to customer loyalty. Larger portions of long-term customers than short-term customers exhibit high profitability, therefore the theory of an overall positive connection between customer loyalty and profitability cannot be underestimated or rejected (Leverin & Liljander, 2006). Long-term insurance organisations will not be able to survive for much longer in the competitive long-term insurance industry, battling the global recession, if they do not understand the importance of these variables influencing their CRM and how they can improve customer loyalty. The paper will focus on the importance for long-term insurance organisations, to better understand the need for CRM, and how that will lead to customer loyalty. The problem statement therefore is:

The influence of the variables trust, commitment and two-way communication on customer loyalty through the intervening role of CRM in the long-term insurance industry in South Africa remains unclear and unexplored.

**Figure 1: Conceptual framework**



Source: Researcher's own construct

Figure 1 illustrates that the independent variables of the research constitute selected variables as identified in literature on CRM. These variables are trust, commitment and two-way

communication. In this paper each variable's influence was assessed through an empirical investigation. The paper will further attempt to identify the extent of influence of CRM on the customer loyalty of a long-term insurance organisation in South Africa, the dependent variable. The dependent variable, customer loyalty, refers to the impact of the underpinnings of CRM on customer loyalty. Service organisations can benefit from CRM, as customers focus on the service aspect and interaction with the service provider when evaluating a service organisation, as no physical product is involved (Rootman, 2006). Long-term insurance organisations need to be aware of the variables that influence their CRM activities. This would assist long-term insurance organisations in adopting the required variables to ensure the improved application of the CRM process to strengthen customer loyalty and increase market share in South Africa.

## **RESEARCH OBJECTIVES**

The primary objective of this paper is to investigate the influence of trust, commitment and two-way communication on customer loyalty via CRM at a long-term insurance organisation in South Africa.

The following secondary objectives were identified:

- To investigate whether trust influences CRM at a long-term insurance organisation in South Africa.
- To investigate the influence of commitment on CRM at a long-term insurance organisation in South Africa.
- To investigate whether two-way communication influences CRM at a long-term insurance organisation in South Africa.
- To investigate the intervening role of CRM on the effect of trust, commitment and two-way communication on customer loyalty at a long-term insurance organisation in South Africa.

## **RESEARCH HYPOTHESES**

### **Relationship between the independent variables and the intervening variable, CRM**

HO<sup>1</sup>: There is no relationship between the perceived trustworthiness of a long-term insurance organisation and CRM at the organisation in South Africa.

HA<sup>1</sup>: There is a relationship between the perceived trustworthiness of a long-term insurance organisation and CRM at the organisation in South Africa.

HO<sup>2</sup>: There is no relationship between the perceived commitment of a long-term insurance organisation and CRM at the organisation in South Africa.

HA<sup>2</sup>: There is a relationship between the perceived commitment of a long-term insurance organisation and CRM at the organisation in South Africa.

HO<sup>3</sup>: There is no relationship between the perceived two-way communication of a long-term insurance organisation and CRM at the organisation in South Africa.

HA<sup>3</sup>: There is a relationship between the perceived two-way communication of a long-term insurance organisation and CRM at the organisation in South Africa.

### **Relationship between the intervening variable, CRM, and the dependent variable, customer loyalty**

HO<sup>4</sup>: There is no relationship between CRM and customer loyalty at a long-term insurance organisation in South Africa.

HA<sup>4</sup>: There is a relationship between CRM and customer loyalty at a long-term insurance organisation in South Africa.

## **RESEARCH METHODOLOGY**

This study was conducted in two phases, the first phase focused on qualitative research, and the second phase focused on a quantitative research approach. A focus group interview was held with a manager of the Customer Walk-in-Centre in Johannesburg, and two other senior managers responsible for customer relationships at a long-term insurance organisation. The focus group interview assisted the researcher in developing the questionnaire and provided the desired information on CRM and customer loyalty from a long-term insurer's perspective (Rootman, 2006). The questionnaire was used during the quantitative phase of the research. The reason for applying quantitative data is that it is easy to interpret the results in simple conclusions (Zikmund & Babin, 2007). Taking into consideration the nature of the research and the research problem being investigated, the research approach was descriptive.

A structured questionnaire survey was used to collect data for this research, and this process was interview administered. The questionnaire included self-developed items, as well as

items from the questionnaire used by Ndubisi and Wah in 2005. Items relating to the constructs trust, commitment and two-way communication and conflict handling were selected from the Ndubisi and Wah questionnaire which the researcher viewed as applicable to the research and adapted to the South African insurance market (Ndubisi & Wah, 2005:548). The population of the research consisted of the long-term insurer's entire individual, natural person, customers who visited customer walk-in-centres in Johannesburg, Pretoria, Durban and Cape Town. For the purpose of this study a probability sampling method was used. Stratified sampling, followed by simple random sampling was used in this study. The reason for selecting this sampling technique was that the sampling frame of the study was divided into subgroups, strata, and the sampling process was performed separately on each stratum. Stratified samples are statistically the most efficient, and they allow the investigation of the characteristics of the interest for particular subgroups within the population (Churchill & Iacobucci, 2005). The sample size of this study was twofold. Firstly, the sample was based on the percentage of customers visiting customer walk-in-centres presented as a portion of the total number of customers visiting these centres. Secondly, the percentage was applied to 254 customers of the long-term insurer entering the customer walk-in-centres in Johannesburg, Pretoria, Cape Town and Durban.

**Table 1: Determining the sample**

Stratum	Number of Customer Walk-in-Centres	Customers normally serviced by centre expressed as a percentage of total customer serviced by centres on a daily basis	Total number of selected customers
Johannesburg	1	34.3%	87
Pretoria	1	30.3%	77
Cape Town	1	10.2%	26
Durban	1	25.2%	64
Total	4	100%	254

Source: Researcher's own construct

The research instrument, a questionnaire, was pre-tested in a pilot study involving five customers in the customer walk-in-centre in Johannesburg. Reliability and validity are the hallmarks of good measurement and the keys to assessing the trustworthiness of any research conducted. The reliability measurement for this study was the internal consistency reliability test. Reliability tests whether the questionnaire will measure the same thing more than once

and result in the same outcome every time (Cant, Gerber-Nel, Nel & Kotze, 2005; Ndubisi & Wah, 2005). The extent to which a particular measure is free from both systematic and random error indicates the validity of the measure. In this study exploratory factor analysis, utilising the Varimax with Kaiser Normalisation method was performed to assess the discriminant validity of the questionnaire. Validity was also confirmed by conducting the Kaiser-Meyer-Olkin (KMO) and Bartlett's test of sphericity (Madiba, 2009). The statistical analyses that were used in the study included a multiple regression analysis to test the hypotheses formulated for the study, and an analysis of variance test (ANOVA). The rotation of the factor matrix was also performed to assess the discriminant validity of the measuring instrument.

## FINDINGS

The findings of the empirical investigation are presented in the following section. Firstly, this paper will look at reliability, then validity, and lastly, the findings of the multiple regression analyses will be discussed.

### Reliability

The internal consistency reliability test compares different samples of the items being used to measure a phenomenon, during the same time period. This can be done by means of a split-half reliability test, also known as the coefficient alpha or Cronbach's alpha, and results exceeding 0.60 will reflect the lower level of acceptability (Ndubisi & Wah, 2005). The reliability statistics for the questionnaire are presented in Table 2.

**Table 2: Reliability statistics**

Constructs	Cronbach's Alpha
Trust	0.906
Commitment	0.890
Two-way communication	0.906
CRM	0.941
Loyalty	0.970
CRM and its influences on loyalty	0.918

Source: Researcher's own construct

It is evident in Table 2 that the Cronbach's alpha for all six constructs is above the lower limit of acceptability, 0.60. This confirms that the measurement set used in the study was reliable.

### Validity

A factor analysis can also be performed to assess the discriminant validity of the measuring instrument (Rootman, 2006). As stated earlier, the rotation method used in this research was the Varimax with Kaiser Normalisation. Table 3 reflects the rotated factor analysis results of the variables trust, commitment and two-way communication.

**Table 3: Exploratory rotated factor analysis results**

No	Items	1 COM	2 TRS	3 TWCOM
A2.1	My relationship with a long-term insurance organisation depends on whether it makes adjustments to suit my needs	.786	.264	.091
A2.2	My relationship with a long-term insurance organisation depends on whether it is willing to offer personalised services to meet my needs as a customer	.629	.281	.267
A2.4	My relationship with a long-term insurance organisation depends on whether it is flexible when its services are changed	.606	.402	.285
A2.5	My relationship with a long-term insurance organisation depends on whether it is flexible in serving my needs as a customer	.571	.233	.469
A3.2	My relationship with a long-term insurance organisation will be better if it provides timely and trustworthy information	.538	.149	.339
A3.3	My relationship with a long-term insurance organisation can improve if it regularly provides me with information on new or important services through different media sources	.500	.218	.242
A2.3	My relationship with a long-term insurance organisation depends on the attitude of its employees towards customers	.478	.062	.291
A1.3	My relationship with a long-term insurance organisation depends on whether it is consistent in providing a quality service	.226	.725	.260
A1.1	My relationship with a long-term insurance organisation depends on whether its employees show respect to customers	.189	.684	.055
A1.4	My relationship with a long-term insurance organisation depends on whether its employees are truthful and honest to customers	.253	.640	.068



A1.2	My relationship with a long-term insurance organisation depends on whether its promises are reliable	.218	.629	.365
A1.6	My relationship with a long-term insurance organisation depends on the confidence that I have in its service provision	.218	.621	.348
A1.5	I will have a better relationship with a long-term insurance organisation if it fulfils its obligations towards me	.327	.562	.422
A3.4	My relationship with a long-term insurance organisation depends on whether the information it provides is always accurate	.257	.251	.698
A3.5	My relationship with a long-term insurance organisation can improve if the communication that I receive from it is easy to understand	.317	.244	.679
A3.7	My relationship with a long-term insurance organisation depends on whether it makes and fulfils promises	.317	.205	.656
A3.6	My relationship with a long-term insurance organisation depends on whether it tailor-makes its communication to suit my needs	.416	.303	.609

Source: Researcher's own construct

## Multiple regression analyses results

### The influence of the independent variables on the intervening variable

Multiple regression analysis was performed to assess the relationship between the independent variables (trust, commitment and two-way communication) and the intervening variable (CRM). The results are reflected in Table 4.

**Table 4: Influence of the independent variables on CRM**

Dependent variable CRM					
Model	Sum of Squares	DF	Mean Square	F	Sig.
Regression	320.380	4	80.095	79.266	0.000
Residual	251.604	249	1.010		
Total	571.984	253			
	R <sup>2</sup>				
	0.560				
Model	Standardised coefficients, Beta	T	Sig.		
(Constant)		-2.121	0.035		
Trust	0.148	2.130	0.034		
Commitment	0.347	4.699	0.000		
Two-way communication	-0.190	-2.478	0.014		

Source: Researcher's own construct

Table 4 indicates that two of the independent variables, trust and commitment, exerted a statistically significant positive influence on the intervening variable (CRM), while two-way communication exerted a statistically significant negative influence on the intervening variable (CRM). The reason being that if trust has been established between a customer and the organisation and complaints have been managed in a manner that enhances the customer's level of satisfaction, thereby improving the willingness of the customer to commit to the relationship, the need for communication with the organisation is reduced. The researcher relied on a 95% level of confidence, therefore a p-value of less than or equal to 0.05 implied that it is highly unlikely that the results are due to chance alone according to the Independent Sample T-test. This implied that the null hypotheses are rejected and the alternative hypotheses are accepted. The relationship between trust and CRM is significant at  $p = 0.034$ , the relationship between commitment and CRM is significant at  $p = 0.000$ , and the relationship between two-way communication and CRM is significant at  $p = 0.014$ .

The following hypotheses;  $HO^1$ , which states that there is no relationship between the perceived trustworthiness of a long-term insurance organisation and CRM at the long-term insurance organisation in South Africa;  $HO^2$ , which states that there is no relationship between the perceived commitment of a long-term insurance organisation and CRM at the long-term insurance organisation in South Africa; and  $HO^3$ , which states that there is no relationship between the perceived two-way communication of the long-term insurance organisation and CRM at the long-term insurance organisation in South Africa, are therefore rejected.

The following alternative hypotheses;  $HA^1$ , which states that there is a relationship between the perceived trustworthiness of a long-term insurance organisation and CRM at the long-term insurance organisation in South Africa;  $HA^2$ , which states that there is a relationship between the perceived commitment of a long-term insurance organisation and CRM at the long-term insurance organisation in South Africa; and  $HA^3$ , which states that there is a relationship between the perceived two-way communication of the long-term insurance organisation and CRM at the long-term insurance organisation in South Africa, are therefore accepted.

### The influence of the intervening variable on the dependent variable

Multiple regression analysis was performed to assess the relationship between the intervening variable (CRM) and the dependent variable (customer loyalty). The results are reflected in Table 5.

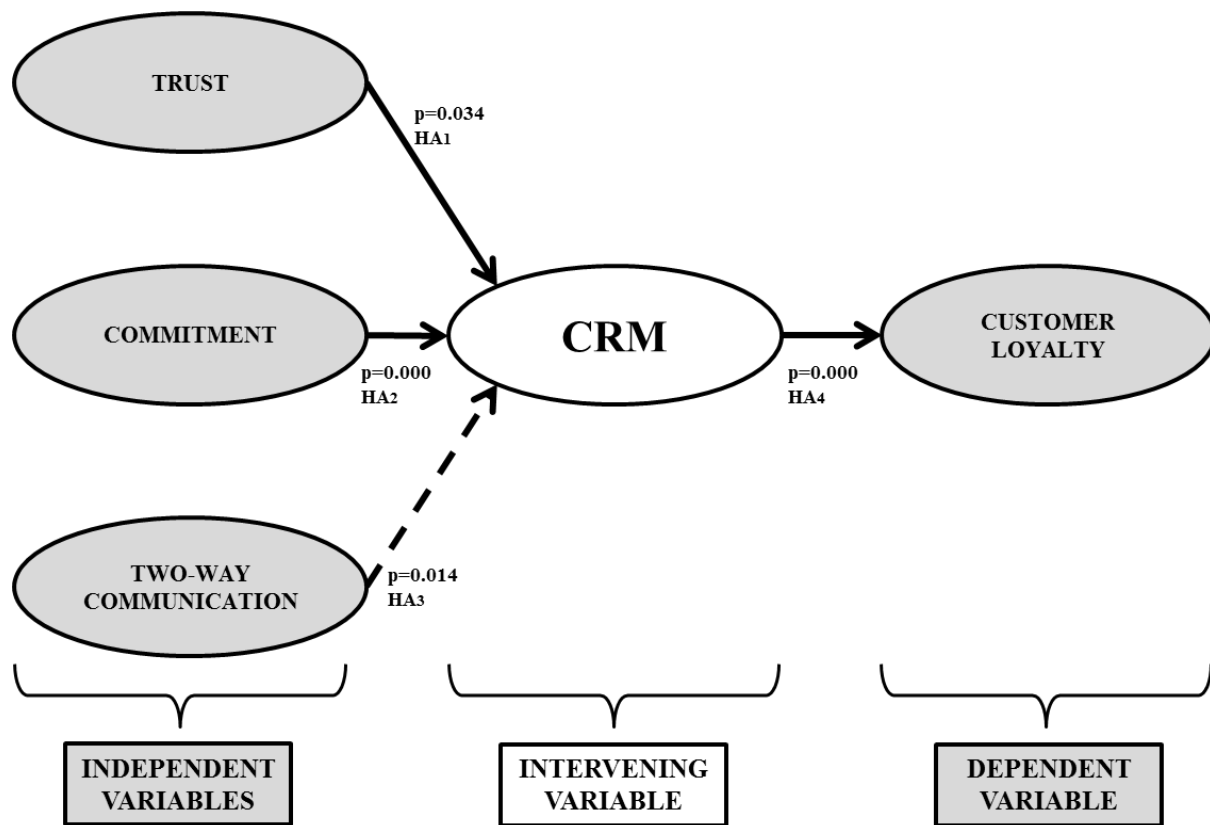
**Table 5: Influence of the intervening variable on customer loyalty**

Dependent variable Customer Loyalty					
Model	Sum of Squares	DF	Mean Square	F	Sig.
Regression	503.073	1	503.073	1019.925	0.000
Residual	124.298	252	0.493		
Total	627.371	253			
	R <sup>2</sup>				
	0.802				
Model	Standardised coefficients, Beta	T	Sig.		
(Constant)		1.691	0.092		
CRM	0.895	31.936	0.000		

Source: Researcher's own construct

Table 5 indicates that the intervening variable (CRM) positively influenced the dependent variable (customer loyalty). The relationship between CRM and customer loyalty is significant at  $p = 0.000$ . This relationship implies that if the long-term insurance organisation successfully maintained relationships with its customers, customer loyalty at the long-term insurance provider will increase. Table 7 indicates that the intervening variable in the multiple regression analysis explained 80.2% of the variance ( $R^2$ ) in the dependent variable. In other words, it can be said that 80.2% of a possible change in the level of customer loyalty in the long-term insurance organisation is caused by CRM. Table 5 further indicates that one unit increase in CRM will increase customer loyalty with 89.5% when considering Beta.

The hypothesis  $H_0^4$ , which states that there is no relationship between CRM and customer loyalty at a long-term insurance organisation in South Africa is rejected. The hypothesis  $H_A^4$ , which states that there is a relationship between CRM and customer loyalty at a long-term insurance organisation in South Africa is accepted. The results of the findings of the empirical investigation are presented in Figure 2.

**Figure 2: Empirical model modified**

Source: Researcher's own construct

## MANAGEMENT IMPLICATIONS AND RECOMMENDATIONS

### Trust

Trust is an important dimension of the relationship between long-term insurance organisations and customers, and ultimately in the development of customer loyalty. Therefore, long-term insurance providers should strive to win customers' trust. These organisations should remember that trust develops over time and as a result of experiences and actions in the past. Long-term insurance providers must be willing to be exposed to risks in order to be trustworthy. They can become more trustworthy by giving and keeping promises to customers, showing concern for the security of their transactions, providing quality services, showing respect for customers through front-line staff and fulfilling obligations. All these factors will contribute to building confidence in long-term insurance organisations and the services they offer. Managers should only employ employees who are trustworthy. In addition, long-term insurance organisations can design specific training

sessions for employees, emphasising the trust aspect. The training sessions can be made compulsory to attend for new employees, and can be provided annually to all employees to enforce the importance of the trust aspect. It is important to emphasise long-term insurance organisations' focus on the trust aspect to new employees and to repeat it regularly to all employees. All new financial products that long-term insurance providers develop should be stress-tested to ensure the product will meet the reasonable needs and expectations of customers under a variety of financial scenarios. Long-term insurance organisations should also take steps to ensure that their salesforce only sells policies developed for different target markets to the identified target market, thus reducing the risk of policies being sold outside the target market and not living up to their promises. These findings are consistent with Ndubisi (2007) and Sauers (2008) who stated that customers will trust organisations that they perceive to be honest.

### **Commitment**

Commitment is central to a successful relationship between long-term insurance providers and customers. Commitment is the desire by both parties to maintain the relationship, and is indicated by ongoing investment into activities which are expected to maintain the relationship into the future. Commitment is a critical factor in building customer loyalty, therefore long-term insurance organisations should accommodate customer needs, it should tailor financial products to meet customer requirements, and should generally be flexible in their relationships with customers. They can identify the needs of different customers and satisfy them through customer segmentation. Financial products can then be developed that address the needs of the target market according to the following criteria, namely relationship revenue and relationship cost, relationship volume, relationship profitability, or relationship volume and profitability.

By selecting relationship volume and profitability, long-term insurance organisations can ensure that their actions are directed to the most profitable customers in order to increase their commitment and loyalty towards long-term insurance organisations. Long-term insurance organisations can only fulfil and be flexible to the needs of customers if they understand what customers want. By understanding what customers want, long-term insurance organisations can create a pull for the services from committed customers. To better understand the segmented customer groups, long-term insurance organisations must

capture information each and every time the customer interacts with the organisation. The interactions can be as a result of the customer entering into a new policy or making an investment, calling the call centre, complaining, visiting the walk-in-centre, or just visiting the website of a long-term insurance organisation. This information can then be used with other information, such as demographics and psychographics to better understand customers, and to create products that will satisfy the individual needs of customers or to treat customers as individuals. Sauers (2008) agrees with these findings and states that during the commitment stage of relationship marketing, the parties reach a mature, stable period where the parties share the benefits of the relationship.

### **Two-way communication**

The focus of a long-term insurance organisation should be on attracting and retaining customers through cooperation, trust, commitment and the sharing of information between the parties in the relationship. In the ongoing relationship with the customer, a long-term insurance organisation is required to communicate with the customer, and the customer is expected to listen. Both parties in a relationship have to communicate with each other. A long-term insurance organisation can nurture the loyalty of customers by providing accurate information that is easy to understand and that is tailored to address the needs of customers, and finally by making and fulfilling promises. A long-term insurance organisation should ensure that its salesforce discloses all necessary information to the customer in a clear, understandable and accurate way at the point of sale. Once the policy is in force, communicating to the customer in a timely, accurate and understandable way, and ensuring customers are promptly informed about key changes to their policies and their likely returns, should be a priority for a long-term insurance organisation. This can be done through the annual anniversary letter being sent to all customers. A long-term insurance organisation can design specific training sessions. The training sessions can be made compulsory to attend for new employees, and can be provided annually to all employees to enforce the importance of the two-way communication aspect. It is important to emphasise the long-term insurance organisation's focus on the two-way communication aspect to new employees and to repeat it regularly to all employees. A long-term insurance organisation must ensure that once the trust and commitment aspects have firmly been imbedded, it reduces its two-way communication with customers to a customer desired level. These findings support the findings of a study by

Ndubisi in 2007. However, in his findings the relationship of two-way communication was statistically significant and positive (Ndubisi, 2007).

### **Relationship between the intervening variable, CRM, and the dependent variable, customer loyalty**

A long-term insurance organisation should develop training sessions to inform employees that the core CRM processes are customer acquisition, customer development and customer retention. Just as a customer acquisition strategy aims to increase the customer base, the focus of customer retention is to keep a high proportion of current customers by reducing customer defections. The long-term insurance organisation should launch a customer development strategy which aims to increase the value of retained customers. A long-term insurance organisation should retain and develop loyal customers by being trustworthy and committed to service delivery.

In order to maintain relationships with customers and to retain loyal customers, a long-term insurance organisation can give special benefits to loyal customers, for example lowering policy charges when new policies are entered into, and charging less administrative fees for managing investments. It is clear from the empirical studies that only one unit increase in CRM at a long-term insurance organisation can increase customer loyalty with 89.5%. A long-term insurance organisation should ensure that CRM, and therefore customer loyalty, increases by delivering high quality and high value products and services. Insurance policies and other services should thus be offered by the long-term insurance provider that will deliver on promises made to customers.

A long-term insurance organisation should train employees to understand that every single contact with a customer must count. Customers' first impressions are the ones they remember, therefore front-line employees should be equipped to ensure a positive first experience. This is the best way to acquire loyal customers. A long-term insurance organisation must know its customers. Loyalty schemes equivalent to Discovery's Vitality Programme can be introduced by a long-term insurance organisation. This loyalty programme will not only contribute to obtaining a bigger share of the wallet of the customer, but can also be used to obtain more information about customers. A long-term insurance organisation must build a system linked to its policy master that will inform management when customers

defect. These customers should be contacted immediately and asked why they intend leaving the long-term insurance organisation, and determine if anything can be done to rectify the reason why the customer is not happy.

A long-term insurance organisation must deliver excellent customer services. The particular experience a customer has with customer service will influence how the customer feels about a long-term insurance organisation. A long-term insurance organisation should always treat customers well. Unfortunately, many customers today expect to be ignored or mistreated. A long-term insurance organisation can request senior managers to phone clients personally to thank them for their support or provide reasons for a mistake made, and indicate what the long-term insurance organisation is doing to rectify the mistake. A long-term insurance organisation should also use its customer database to maximise the personalisation of offers to customers. Should a long-term insurance organisation be able to implement the recommendations, customer loyalty will increase, which will lead to higher profits and will give a long-term insurance organisation a sustainable competitive advantage.

## **PROPOSALS FOR FURTHER RESEARCH**

As the study only focused on major cities in South Africa, a more inclusive study of all areas in South Africa is therefore recommended. A comparative study with one or more of the other long-term insurance organisations in South Africa can also be considered.

## **CONCLUSION**

The objective of this study was to investigate CRM and its influence on customer loyalty in the long-term insurance industry in South Africa. More specifically, the theoretical model stressed the influence of the independent variables, trust, commitment, two-way communication on customer loyalty via CRM as the intervening variable at a long-term insurance provider. Based on this model, an empirical investigation was conducted with the customers of a long-term insurance provider at the provider's customer walk-in-centres situated at the offices of the organisation in Johannesburg, Cape Town, Durban and Pretoria. This research succeeded in identifying a list of dimensions that underpin CRM and which can predict customer loyalty in the long-term insurance industry in South Africa. Managers



aiming to build a loyal customer base should concentrate on the issues of trust, commitment and two-way communication. Strategies to improve the trustworthiness of a long-term insurance organisation, commitment to service, how the long-term organisation communicates with customers, and how it obtains information concerning the customers' needs, should be implemented. The strategies when implemented will increase customer loyalty, which in turn will lead to increased profitability of the organisation and sustainability of the organisation's future.

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# ONLINE WORD OF MOUTH ADVERTISING ON SOCIAL NETWORKING SITES: EXPLORING ATTITUDES AND BEHAVIOURS

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# **ONLINE WORD OF MOUTH ADVERTISING ON SOCIAL NETWORKING SITES: EXPLORING ATTITUDES AND BEHAVIOURS**

## **ABSTRACT**

Social networking sites (SNSs) provide marketers with an array of opportunities into understanding customer perceptions and needs. With the growth of SNSs such as Facebook, Twitter and YouTube, online word of mouth (OWOM) has become an important topic of research mainly due its convenience, less intrusive nature and less expensive form of advertising. The challenge is for marketers to tap into SNSs and connect with customers to encourage brand awareness and product purchases. The purpose of this study is to develop and understand the presence and effects of online word of mouth (OWOM) advertising on SNSs. This research explored how OWOM advertising on SNSs is perceived by young adults and its effect on OWOM behaviour. A survey of students from the University of Pretoria found that there is a significant positive correlation between the antecedents of OWOM and the behavioural consequences. The findings also indicate positive attitudes towards advertising on SNSs and advertising in general therefore marketers should be optimistic. The use of SNSs has increased considerably giving marketers a new platform to advertise.

## INTRODUCTION

Social networking sites (SNSs) provide marketers with an array of opportunities into understanding customer perceptions and needs (Bloomberg, 2007:2). With the growth of social network sites such as Facebook, Twitter and YouTube, online word of mouth (OWOM) has become an important topic of research mainly due its convenience, less intrusive nature and less expensive form of advertising (Sun, Youn, Wu, & Kuntaraporn, 2006:1105). Marketers have begun to market their products, services and companies on popular SNSs. However, despite the fast growing popularity of SNSs, low advertising sales are still reported (Delaney, Steel, Vara & Vascellaro, 2008). Online WOM on SNSs has the potential to influence sales because of its growth and popularity, but finding the right strategy is a dilemma (Brown, Broederick & Lee, 2007:3). The fast growing advances in technology and exploring the potential of SNSs as an advertising medium is the focus of this paper.

Recognition of the significance of WOM has been well established, the effectiveness may still be questioned (Smith, Coyle, Lightfoot & Scott, 2007:387). Extensive research has explored WOM (positive and negative), OWOM (in this paper, the term OWOM will be used and not eWOM), its antecedents and in relation or difference to traditional marketing (Brooks, 1957; De Bruyn & Lilien, 2008; Heckman, 1999; Phelps, Lewis, Mobilio, Perry, & Raman, 2004; Dwyer, 2007; Trusov, Bucklin & Pauwels, 2009). WOM has been investigated with regards to its potential to influence consumer attitudes and purchasing behaviour (Arndt, 1967). The key role played by opinion leaders in this process has been well established (Burt, 1999). Managing OWOM for practitioners is still a challenge.

In South Africa, Facebook (FB) has become the number one SNS for teenagers and young adults to communicate, express themselves and socialise (Da Silva, 2010). The youth don't care about traditional marketing and advertising campaigns, not the way they care about what their friends think and like. "Ninety-nine percent use the internet for up to three hours a day" (Student Village, 2009). The challenge is for marketers to tap into SNSs and connect with customers to encourage brand awareness and product purchases.

This leads to the conclusion that the South African youth may be using OWOM to discuss brands, in essence SNSs provide a place for customers to say what they really feel about a

company or brand. Instead of advertising to the youth, SNSs provide a platform to co-create and market with them (Needham, 2008:61). Identifying online opinion leaders and understanding how to engage with them for co-creation may create a competitive benefit for marketers, which may generate positive WOM. Understanding how consumers react to advertising on SNSs may provide insight into managing online SNS advertising campaigns which have the potential for positive OWOM.

The purpose of this study is to develop and understand the presence and effects of online word of mouth (OWOM) advertising on SNSs. The purpose of the study is to determine whether it is possible to identify online opinion leaders and seekers and to gauge their attitudes towards advertising and their motivations to participate in online WOM while on SNSs.

This research explored how OWOM advertising on SNSs is perceived by young adults and its effect on OWOM behaviour. More specifically the extent to which individuals engage in OWOM advertising on SNSs was investigated; the characteristics of individuals engaged in OWOM (online opinion leaders and online opinion seekers) are identified and; the behavioural consequences of OWOM is investigated with a focus on online forwarding and online chatting; The study also explored the attitudes of SNS users towards advertising in general as well as advertising on SNSs; and determined the motivators for participating in OWOM advertising on SNSs.

The paper is structured as follows: first it reviews existing literature in OWOM, its antecedents and related constructs. Secondly the research methodology and data collection methods are discussed. Thirdly the findings of the study are presented. Finally, implications, limitations, and directions for future research are offered.

## **LITERATURE REVIEW**

### **SOCIAL NETWORKING SITES: USE IN SOUTH AFRICA**

One of the most popular social media used today are social networking sites (SNSs). Given the popularity, new ways of advertising can be integrated (Boyd & Ellison, 2007). SNSs are

increasing people's ability to satisfy their needs for social connection, belonging to a group and psychological needs such as self-esteem and self actualisation by being a powerful tool to facilitate communication (Waclawsky, 2009:36).

SNSs allow users to build and maintain a network of friends for social or professional interaction (Trusov *et al.*, 2009:92). SNSs are online communities of people who typically share a common interest or activity. They provide a variety of ways for users to interact with each other by using blogs, e-mail, instant messaging, newsfeeds as well as to share information, photos and videos (Gangadharbatla, 2008). Examples of SNSs include Facebook, Myspace, Twitter, Mxit and LinkedIn. For companies SNSs provide easy tools to invite others and expose them to your brand and products. All SNSs are global platforms, making it easier for companies to reach segments in the market they would not normally be able to market to, due to geographic constraints.

### **Importance of young adult segment**

Young South Africans still don't have country wide access to the internet, but access over the past few years this has grown substantially. On a daily basis, thirty percent of young South African's access the internet via their computer or cellphone (HDI youth marketeers, 2009). Results of the Sunday Times Generation Next survey of 2010 reveal that young adults mostly use the internet for the following activities: social networking (Facebook) - 32.0%, research for school/varsity - 23.6%, email - 10.7% and Mxit - 9.7% (HDI youth marketeers, 2010).

SNSs are seen as off limits to marketers. The challenge is for marketers to tap into SNSs and connect with customers to encourage brand awareness and product purchases.

## **MAINSTREAMS OF ONLINE WOM RESEARCH**

### **Online WOM defined**

Due to the effects of increasing use of social media and technology advancements in consumers' lives, OWOM has certainly affected the potential for communication and information to be distributed of brands. The impact of SNSs on consumers' lives is still being researched. The opportunities are there, but taking control of WOM is a challenge for all



businesses. Consumers are able to search for information more effectively, share ideas of products or services to other people or even purchase goods and services online. (Chaiwongkachon, 2008:2).

Word of mouth (WOM) is defined as “the process of conveying information from person to person and plays a major role in customer buying decisions” (Richins & Root-Shaffer, 1988). According to Jansen, Zhang, Sobel and Chowdury (2009:2169) “WOM involves consumers sharing attitudes, opinions, or reactions about businesses, products, or services with other people.” WOM may only have a powerful influence on behaviour if it is based on social networking and trust (Brown *et al.*, 2007:4).

The internet has become a powerful tool to transmit WOM through blogs, email, social media, SNSs, chat rooms and instant messengers, thereby creating online communities (Sun *et al.*, 2006). OWOM is defined as “...personal experiences and opinions transmitted through the written word...”, or a “...statement made by potential, actual, or former customers about a product or company, which is made available to a multitude of people and institutions via the internet” (Hennig-Thurau, Gwinner, Walsh, & Gremler, 2004:39).

The difference between traditional WOM and OWOM is that traditional is the exchange of words with a person face-to-face (Sun *et al.*, 2006). SNSs are the ideal aim for WOM participation as members naturally want to share information (Dwyer, 2007).

Hung and Li (2007:486) compare OWOM to personal selling. OWOM provides explicit information, tailored solutions, interactivity, and empathetic listening, but there is a lower distance between the source of communication and the receiver than marketer induced communications. People rely on their families, friends, and others in their social network to provide them with reliable and credible information (Jansen *et al.*, 2009:2169).

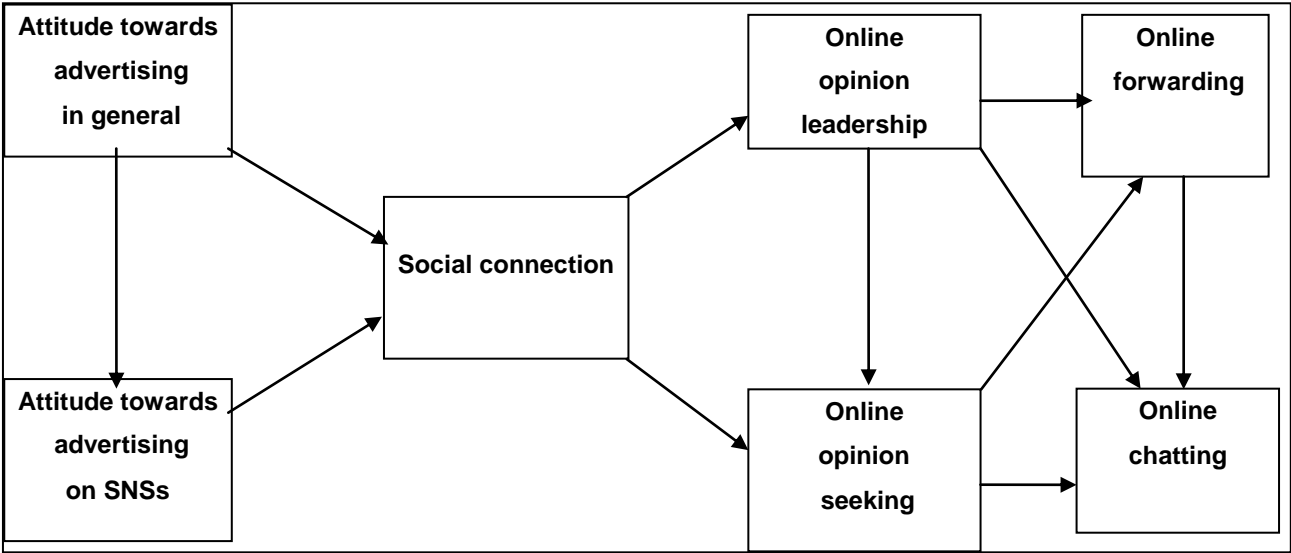
Previous research examined OWOM with regards to tie strength and weak ties (Hung & Li, 2007:486). A strong or weak tie within a social network surrounding social connection or trust provides a means to generating effective OWOM communication. Consumer ties, source credibility, and social norms are sources of effectiveness in OWOM. Hung and Li (2007:486) suggest that the accessibility of a few online users encourage opinion leaders to participate actively and that less experienced members lurk, and help to develop the social connection

among users. These activities boost OWOM. For marketers, finding these individuals is a challenge. In literature these individuals are known as opinion leaders, market mavens and innovators (Geissler & Edison, 2005).

For brands OWOM is important for customer relationship management. Marketers need to know what customers and potential customers are saying about their brands. SNSs provide customers with a platform to say how one really feels about the brand and its competitors (Jansen *et al.*, 2009:2186). SNSs can then be used to connect with customers and build relationships. The importance of building long-term relationships with customers in a competitive industry has been considered vital in increasing profitability and guaranteeing future survival.

The model in figure 1 below has been adapted from (Sun *et al.*, 2006:1115). The model has been changed to include SNS users’ attitudes towards advertising in general and attitudes towards SNS advertising. The section below provides a discussion on each construct.

**FIGURE 1**  
**THEORETICAL MODEL FOR ONLINE WORD OF MOUTH ADVERTISING ON SOCIAL NETWORKING SITES**



## **SNS Advertising**

As the popularity of SNSs increases in South Africa, it is significant for marketers to know if their advertising is effective on SNSs (Wen, Tan, Chang, 2009:15). Wen *et al.* (2009:1-15) investigated the advertising effectiveness on SNSs by looking at product endorsement.

SNS advertising can be a great opportunity for brands. SNS advertising can help to build brand awareness, to conduct online market research, to keep in touch with existing customers and to find new customers. According to Bolotaeva and Cata (2009), there are two main ways of advertising on SNSs which are through wish list features and tell-a-friend applications. Both of these may save on advertising costs, especially needed in these tough economic times. SNS advertising allows brands to provide product information, gain free publicity and connect with customers on a personal level.

According to Sweeney, Soutar and Mazzarol (2008:344), consumers trust in traditional advertising has decreased, which offers brands the opportunity to take advantage of WOM which may lead to a significant competitive advantage. OWOM has a greater advantage and is more appealing for marketers because of its low costs and fast delivery with the use of the internet (Trusov *et al.*, 2009:90). Furthermore, Trusov *et al.* (2009:99) provide evidence to link WOM with new customer acquisition.

The advantages of OWOM identified by Barber and Wallace (2009), and Sweeney *et al.* (2009:347) include the following: OWOM is real and immediate (real, live people telling other people in real time); its personal, the person knows you and is trying to be helpful; honest; catching, people love to share a good Idea or experience and other people love to listen (the only thing people like to share more than a good experience is a bad experience); it is customer-driven, the customer determines when she/he will talk/listen. It is not imposed; improves brand perceptions; improves brand awareness; improves psychological condition (cognitive dissonance) and; there is a greater likelihood of making a purchase.

According to Clemons, Barnett, and Appadurai (2007:272), SNSs advertising will not work for the following reasons: a virtual community is not really a community; a virtual friend is not really a friend; product recommendations from virtual friends may be neither welcomed nor trusted; advertising on SNSs is unseen or ignored. It is not welcomed, trusted or credible.

On the one hand, Clemons *et al.* (2007) argues that SNS advertising is useless and on the other hand, Barber and Wallace (2009) and Sweeney *et al.* (2009:347) provide positive outcomes and advantages for OWOM.

The attitudes towards advertising in general and attitudes towards advertising on SNSs will thus be researched (Barber & Wallace, 2009; Sweeney *et al.*, 2009:347). Based on the aforementioned discussion the following hypothesis is stated:

H<sub>1</sub>: There is a positive correlation between attitudes towards advertising in general and attitudes towards advertising on social networking sites.

### **Social connection**

The factors influencing WOM are social tie strength, the level of homophily and source credibility (Sweeney *et al.*, 2009:347). Tie strength and homophily traditionally characterised WOM. Tie strength "...represents the strength of the dynamic interpersonal relationships in the context of social networks" (Brown *et al.*, 2007:4). Tie strength ranges from strong to weak depending on the intimacy and number of exchanges in the social network. Homophily is defined as the "similarity of member's characteristics" (Brown *et al.*, 2007:4).

Previous research indicates that strong ties between people are more influential than weak ties in the WOM process (Brown *et al.*, 2007:4; Sun *et al.*, 2006). Sun *et al.* (2006) refers to internet social connection as "individuals who engage in online WOM communication would have a strong desire to fulfil social needs and experience a sense of virtual community". People who are part of a social connection look to other participants as valued sources of objective information. For SNSs this is imperative since SNS advertising is based upon trust amongst members or transfer of trust from an online relationship to the SNS (Clemons *et al.*, 2007:269). This leads to the following hypotheses:

H<sub>2</sub>: There is a relationship between attitudes towards advertising in general and social connection.

H<sub>3</sub>: There is a relationship between attitudes towards advertising on social networking sites and social connection.

## **THEORETICAL MODEL DEVELOPMENT**

Consumers influence other consumers in many ways, by expressing their opinions. Characteristics of the sender and receiver of WOM influence the outcomes (Sweeney *et al.*, 2009:347). Previous researchers paid much attention to understanding who the senders and receivers of WOM are, in order to understand the spread of information. The senders have been termed opinion leaders and receivers, opinion seekers. (Flynn, Goldsmith & Eastman, 1996:137).

### **Online opinion leadership**

Marketers are faced with the challenge of identifying influential individuals on SNSs and connecting with them in ways that promote OWOM (Smith *et al.*, 2007). Numerous studies have been conducted on opinion leadership and the link with WOM (Richins & Root-Shaffer, 1988). Previous research shows a strong relationship between opinion leadership and WOM (Richins & Root-Shaffer, 1988).

Opinion leaders are the primary disseminators of information in social networks and are known as market mavens (individuals who have information about many kinds of products, places to shop, and other facets of marketers, and initiate discussions with consumers and respond to requests from consumers for market information) in literature (Geissler & Edison, 2005). “Opinion leaders are defined as individuals who transmit information about a topic to other people, in terms of the extent to which information is sought by those people” (Sun *et al.*, 2006:1107). In the process of opinion leadership, opinion seekers are the ones influenced, therefore none can exist without the other.

Online opinion leadership was only recently investigated, and it is still unclear whether online opinion leadership will be important in OWOM (Sun *et al.*, 2006). Users of SNSs might differ in their usage patterns from one media to another (Jansen *et al.*, 2009:2186). Thus the following hypothesis was formed:

H<sub>4</sub>: Social connection will be positively related to online opinion leadership.

## **Online opinion seeking**

Opinion seeking is defined as individuals who “look for information or advice from others when making an informed decision or taking action” (Sun *et al.*, 2006:1107). Consumers who are uncertain about a certain product or service may seek out the opinions of others to reduce the risk in making a decision. This advice is given by opinion leaders. Opinion leaders obtain information from media and pass it on to opinion seekers (Sohn, 2005).

Flynn *et al.*, (1996) define opinion seekers as individuals who “imitate purchase and consumption behaviour they admire, gather information from other consumers in the process of social communication, and seek advice from others who have greater knowledge and experience”.

Goldsmith and Horowitz (2006) investigated consumer motivations for online opinion seeking. Shared rather than unshared information tends to have a greater impact on individual choices. Majority of opinion seekers discussing shared commonly held information might be less competitive and more collaborative, thereby resulting in greater attitude change (Vishwanath, 2006). Vishwanath (2006) found that individuals in a group increase their reliance on the number of information seekers, who collaborate and discuss shared information, rather than present new information. Furthermore Vishwanath (2006) suggests that in situations involving high levels of uncertainty, opinion seekers create attitude change rather than leaders. In these situations, opinion seekers are more socially connected.

Sohn (2005) indicates that those individuals who had a high level of opinion seeking in the offline environment also displayed high levels of opinion leadership in the online environment. The contradictory may be so for a SNS environment, where individuals with low self-esteem, are able to show self-expression in an online environment (Gangadharbatla, 2008).

This study aims to find out who are opinion leaders vs. opinion seekers in order to facilitate OWOM advertising on SNSs, and co-create with the youth more effectively to ensure they share their positive experiences with others (Needham, 2008). This leads to the following hypotheses:

H<sub>5</sub>: Social connection will be positively related to online opinion seeking.

H<sub>6</sub>: Online opinion leadership will be positively related to online opinion seeking.

### **Behavioural consequences**

The aim of any advertising campaign should be to create brand awareness. Consumers who are satisfied with a brand are more likely to spread positive OWOM. OWOM can be spread by online chatting and online forwarding. Online chatting and online forwarding are the information tools used by opinion leaders and seekers to exchange OWOM with their social connections (Sun *et al.*, 2006:1111).

On SNSs, users are able to pass on information by online chatting, making use of instant messengers, blogs, email, and newsfeeds. The passing on of information from one user to another is known as online forwarding. Online chatting and online forwarding requires interactivity between online opinion leaders and online opinion seekers with their friends, family, colleagues or to any SNS's user. Ultimately all information in OWOM communication process should lead to online chatting or online forwarding (Sun *et al.*, 2006:1111). This leads to the following hypotheses:

H<sub>7</sub>: Online opinion leadership will be positively related to propensity to use online forwarding.

H<sub>8</sub>: Online opinion leadership will be positively related to propensity to use online chatting behaviours.

H<sub>9</sub>: Online opinion seeking will be positively related to propensity to use online forwarding.

H<sub>10</sub>: Online opinion seeking will be positively related to propensity to use online chatting behaviours.

H<sub>11</sub>: Propensity to use online opinion forwarding will be positively related to online chatting behaviours.

## **METHODOLOGY**

## **SAMPLING AND PROCEDURES**

A two-stage design was used to collect data. The first phase, a qualitative study in the form of an online web-based survey. The second phase, a quantitative study in the form of an online survey and a self-administered survey questionnaire.

### **Qualitative study**

The first phase was used to explore the key concepts surrounding OWOM and if the target population participated in OWOM activities. This study was used to gain insight into the use of OWOM on SNSs. The target population for the proposed study consists of individuals between the ages of 18 to 30 who are users of SNSs. An email was sent out to 30 individuals in which a sample size of 14 was obtained (see Annexure A, final data collection instrument, pp. 30). The sample was dominated by female, 10 females (71%) and 4 males (29%). Approximately 85% of respondents are South African, 54% white, 31% African and 15% Indian.

A non-probability (convenience) sampling method was used to select participants. Each participant was required to fill in a set of four open-ended questions. Due to the fact that this study was conducted utilising a non-probability sampling method, the results may not be generalised to a larger population (Cooper & Schindler, 2008:395). A sample of 10 females and 3 males may not be appropriate as gender differences may occur. Grounded theory was used to analyse the results in which recurring categories were identified and coded (Strauss, 1987). The categories are identified in table 1 below.

**TABLE 1**  
**QUALITATIVE ANALYSIS RESULTS**

<b>Category</b>	<b>Qualitative comments</b>
Similar interests and hobbies	“My hobbies and interests are reading, partaking in various craft making, photography, swimming, watching movies, just relaxing with friends and family, and I enjoy watching cricket. I like to think of myself as carefree, kind and friendly person.”
SNS activities	“We talk about meeting up and we talk to catch up”
Social connection	“I interact to stay in touch with individuals and try to make my current connection with certain individuals stronger.”
Opinion leadership	“I do this to encourage them to buy a certain product or warn them to avoid it”



Category	Qualitative comments
Opinion seeking	“Sometimes I will be the first, other times I will hear about new things (for example trends, music, movies) through word-of-mouth or through the internet”

The results indicate that users of SNSs participate in OWOM activities. SNSs are used for many different activities and talk about meeting up and chatting in general. Respondents chat to friends which share common interests (social connection/homophily). Most respondents are opinion seekers, the few that are opinion leaders like to tell their friends about things they’ve tried and also share their experiences. Respondents who are opinion seekers mentioned that even though they are not the first ones to try out or chat about new things, they are “not scared to voice my opinions”.

Respondents have their own perceptions and opinions on brands. It depends on their experience with brands, if they are brand conscious and their individual style. This may also show that each individual responds to advertising differently. Their attitudes towards advertisements in general or on SNSs may lead to either negative or positive WOM.

### **Quantitative study**

The target population for the quantitative phase of this study consisted of undergraduate students in their 1<sup>st</sup>, 2<sup>nd</sup> or 3<sup>rd</sup> year and postgraduate students in all faculties on the main campus of the University of Pretoria between the ages of 18 to 30, who are users of SNSs.

Emails were first sent out to students to complete an online survey. However, due to a low response rate, self-administered survey questionnaires were distributed among students at the University of Pretoria on a convenience sampling basis. There was no sampling frame available from which a random sample could be drawn. Therefore a non-probability sampling method was used. It was also the only feasible option available for this study. One of the major disadvantages of a non-probability sampling method is that the findings of a study cannot be generalised to a larger population (Cooper & Schindler, 2008:395).

Thirty six respondents participated in the online survey and a hundred and seventy three in the campus intercept survey. Table 2 below provides a demographic profile of respondents who

participated in the quantitative study. These 209 respondents included 51 percent females and 49 percent males, majority were between the ages of 18 – 23 (88%) years old.

**TABLE 2**  
**DEMOGRAPHIC PROFILE OF RESPONDENTS**

		N	%
<b>Gender</b>	Female	107	51.2
	Male	102	48.8
<b>Age</b>	17 or younger	2	1%
	18-20	105	50%
	21-23	79	38%
	24-28	21	10%
	30 or older	2	1%
<b>Ethnicity</b>	African	110	52.6
	White	64	30.6
	Indian	22	10.5
	Coloured	9	4.3
	Other	3	1.4
<b>Nationality</b>	South African	191	91.4
	Zimbabwe	6	2.9
	Other	11	5.3

n = sample size, % = percent

\*respondent 9 skipped the demographic questions.

The questionnaire was pre-tested using a convenience sample. Cooper and Schindler's (2008:369) participant pre-testing method was used to pre-test the questionnaire. An online survey and a self-administered survey questionnaire in the form of a campus intercept survey were used for the purpose of this study (see Annexure A, final data collection instrument). Data for the study was collected over a period of one month, during May 2010, among students at the University of Pretoria. Before conducting the survey, permission from the University's Dean of students was obtained. No incentives were provided to respondents to complete the questionnaire.

## MEASURES

A five-point Likert-type scale was used to measure all seven key constructs. All scale points are labelled ranging from 1 (Strongly disagree) to 5 (Strongly agree). The social connection scale is an adapted version of Sun *et al.* (2006) internet social connection scale. The wording

of scale items were changed to adapt to the nature (the original scale relates to the internet) of SNSs (see Appendix A, question 2, p. 32).

Online opinion leadership, online opinion seeking, online forwarding and online chatting scales are adapted from Sun *et al.* (2006:1113) were used to measure OWOM and the behavioural consequences (see Appendix A, question 3-6, p. 32-34).

A new scale was developed to measure users attitudes towards advertising on SNSs (see Appendix A, question 7, p. 35). Attitudes towards advertising in general were assessed through a 7-point semantic differential scale developed by Muehling (1987) (see Appendix A, question 8, p. 34).

The questionnaire also contained questions to determine respondent's age, gender, ethnicity and nationality (see Appendix A, question 9-12, p. 34-35). A multiple choice, single response scale was used to assess age, ethnicity and nationality. A dichotomous question was used to assess gender. Cronbach's alpha coefficient and item-to-total correlations were calculated using SPSS to determine the reliability of each scale. The results are summarised in table 3 below.

**TABLE 3**  
**RELIABILITY OF CONSTRUCTS**

Measure	Number of items	Cronbach's alpha	Cronbach's alpha from previous study
Social connection	3	0.72	0.86 (Sun, <i>et al.</i> , 2006:1113).
Opinion leadership	8	0.91	0.94 (Sun, <i>et al.</i> , 2006:1113).
Opinion seeking	8	0.93	0.90 (Sun, <i>et al.</i> , 2006:1113).
Online forwarding	6	0.91	0.89 (Sun, <i>et al.</i> , 2006:1113).
Online chatting	4	0.90	0.91 (Sun, <i>et al.</i> , 2006:1113).
Attitudes towards advertising SNS	4	0.81	Own scale
Attitudes towards advertising in general	3	0.89	0.97 (Muehling, 1987:38)

Cronbach’s alpha coefficient for the social connection scale is 0.69. A reliability analysis of the four-item scale indicated that item 2.3 had to be removed since it had a low item-to-total correlation compared to the other items and decreased the Cronbach’s alpha value of the scale. The Cronbach’s alpha value for the remaining three items was 0.72, which indicates acceptable internal consistency reliability.

## RESULTS

The use of SNSs was tested by asking respondents to indicate which SNSs they currently use. Table 4 below indicates that 94.7% of respondents did make use of Facebook.

**TABLE 4**  
**SOCIAL NETWORK SITE USAGE (N = 209)**

	n	%
Facebook	198	94.7
Mxit	153	73.2
YouTube	52	24.9
Twitter	31	14.8
MySpace	13	6.2
LinkedIn	7	3.3

n = sample size, % = percent

Univariate descriptive statistics for variables measured at an interval level of measurement are presented in Table 5. The means (*M*) and standard deviations (*SD*) for measurement scales are shown. Items in the table are placed in descending order. All items have a relatively small standard deviation for all seven scales used. This indicates that there is a relatively narrow spread of answers. A smaller standard deviation (relative to other items in the scale) indicates that respondents tend to answer the particular item in the same way and tend to agree in their answers to the question.

**TABLE 5**  
**MEANS, STANDARD DEVIATIONS AND RELIABILITY COEFFICIENTS FOR ALL SCALES**  
**MEASURED AT AN INTERVAL LEVEL OF MEASUREMENT (N = 209)**

	<i>M</i>	<i>SD</i>
<b>Social Connection</b>	3.37	1.10
More connected to people like me.	3.65	1.01
More connected to people who share my hobbies/recreational activities.	3.40	1.00
More connected to people in my family through a social network site(s).	3.35	1.22
More connected to people in similar life situations (e.g., self-help groups, support groups).	3.06	1.15
<b>Opinion Leadership</b>	2.70	1.12
Friends think of me as a good online source of information when it comes to buying brands.	2.85	1.13
Over the social network site(s), I tend to influence people's opinions about some brands.	2.83	1.06
Via social network site(s), I like to influence the types of brands my friends choose.	2.70	1.10
Feeling that my friends regard me as a good online source of advice about brands.	2.67	1.14
Friends tend to ask my advice about brands online.	2.66	1.14
First to try new brands; therefore, many people regard me as a leader in this area.	2.64	1.08
Compared with my circle of friends, I am more likely to be asked about brands over social network site(s).	2.64	1.14
During the past six months, I have told my friends about the latest brands over social network site(s).	2.58	1.15
<b>Opinion Seeking</b>	2.84	1.16
Search for the latest online information regarding brands I like.	3.15	1.18
Seek out or search for others' opinions or comments online regarding my interests and hobbies.	2.94	1.14
Seek out positive reviews about some brands on social network site(s), before I make a decision.	2.92	1.19
Seek out negative reviews about some brands on social network site(s) before I make a decision.	2.87	1.18
Comfortable buying a brand when I have gotten other people's opinions on.	2.83	1.24
Seek the advice of my friends regarding which brands I should buy.	2.78	1.10
When I consider choosing brands, I seek other people for advice via social network site(s).	2.64	1.09
Consult other people over the social network site(s), to help me choose the brands I buy.	2.62	1.13
<b>Online Forwarding</b>	2.73	1.13
When I receive a forwarded message about a friend's favourite brands, I will forward the message to her/him.	2.82	1.23
I like forwarding interesting messages about brands from one group of my friends to another.	2.79	1.17
Forward my friend's positive reviews on brands.	2.78	1.19
Use the „Send this site to my friend“ function in a social network site(s), when I find interesting information.	2.71	1.34
Forward my friends' message containing information or opinions about the brands that I like.	2.67	1.20
Forward my friends negative reviews on brands.	2.59	1.18
<b>Online Chatting</b>	2.90	1.15
I like to share with others my favourite brands.	3.04	1.17
I like to share with others some interesting brands that I like.	2.99	1.11

	<i>M</i>	<i>SD</i>
People tend to ask for my opinions about brands.	2.87	1.18
I tend to persuade others to buy the brands that I like.	2.68	1.15
<b>Attitudes towards advertising SNS</b>	3.53	1.07
I enjoy receiving messages on social network site(s).	3.66	1.09
I feel that social network site(s) advertising is necessary.	3.61	0.98
I feel that social network site(s) advertising keeps me informed.	3.54	1.06
I enjoy social network site(s) advertising, because it helps me keep in touch with the company that I receive the message from.	3.29	1.14
<b>Attitudes towards advertising in general- Advertising likeability</b>	5.26	1.43
Advertising: negative/positive	5.30	1.40
Advertising: bad/good	5.29	1.42
Advertising: unfavourable/favourable	5.19	1.46

Notes: Scale values ranging from 1 (“Strongly disagree”) to 5 (“Strongly agree”).

*M* = mean, *SD* = standard deviation

All items have a relatively small standard deviation, which indicates that there was a relatively narrow spread of answers. The coding scheme indicates, an answer of “strongly disagree” which was coded as 1, “disagree” as 2, “neither agree nor disagree” as 3, “agree” as 4 and “strongly agree” as 5. This shows the higher the mean score for an item, the stronger respondents’ level of agreement with that item.

The ten research hypotheses were tested by examining the correlation between constructs (see figure 1 above). Hypotheses were tested at a 5% level of significance (i.e.,  $\alpha = 0.05$ ). Since overall constructs were measured at an interval level of measurement, the appropriate parametric significance test is Pearson’s product moment correlation test. If its assumptions cannot be satisfied, the Spearman’s rank order correlation test can be used as a non-parametric alternative (Diamantopoulos & Schlegelmilch, 2000:201).

Pearson’s product moment correlation test has two assumptions: First it assumes that the variables are bivariately normally distributed. Second, it assumes that the cases represent a random sample from the population and the scores on variables for one case are independent of scores on these variables for other cases (Diamantopoulos & Schlegelmilch, 2000:205).

The assumption of linearity was tested through the visual inspection of a scatter plot, while the assumption of normality was tested through the Kolmogorov-Smirnov test, as well as through a visual inspection of histograms and normal probability plots (Diamantopoulos &

Schlegelmilch, 2000:205). The scatter plot indicated that the assumption of linearity was not violated. The results of Kolmogorov-Smirnov test indicate slight departures from normality. Since the data violated the normality assumption of Pearson's product moment correlation test, the non-parametric Spearman's rank order correlation test was used to test hypotheses.

**TABLE 6**  
**ESTIMATED SPEARMANS CORRELATION COEFFICIENTS FOR ALL SCALES MEASURED AT AN INTERVAL LEVEL OF MEASUREMENT (N = 209)**

Hypotheses	Constructs	AL	SC	OL	OS	OF	OC	Adv SNS
H <sub>1</sub> : There is a positive correlation between attitudes towards advertising in general and attitudes towards advertising on social networking sites.	<b>Advertising Likeability (AL)</b>	1.00						
H <sub>2</sub> : There is a relationship between attitudes towards advertising in general and social connection. H <sub>3</sub> : There is a relationship between attitudes towards advertising on social networking sites and social connection. H <sub>4</sub> : Social connection will be positively related to online opinion leadership. H <sub>5</sub> : Social connection will be positively related to online opinion seeking.	<b>Social connection (SC)</b>	0.18	1.00					
H <sub>6</sub> : Online opinion leadership will be positively related to online opinion seeking.	<b>Opinion leadership (OL)</b>	0.16	0.29	1.00				
H <sub>9</sub> : Online opinion seeking will be positively related to propensity to use online forwarding. H <sub>10</sub> : Online opinion seeking will be positively related to propensity to use online chatting behaviours.	<b>Opinion seeking (OS)</b>	0.21	0.26	0.64	1.00			
H <sub>7</sub> : Online opinion leadership will be positively related to propensity to use online forwarding.	<b>Online forwarding (OF)</b>	0.25	0.32	0.41	0.46	1.00		
H <sub>8</sub> : Online opinion leadership will be positively related to propensity to use online chatting behaviours. H <sub>11</sub> : Propensity to use online opinion forwarding will be positively related to online chatting behaviours.	<b>Online chatting (OC)</b>	0.28	0.32	0.60	0.57	0.59	1.00	

Hypotheses	Constructs	AL	SC	OL	OS	OF	OC	Adv SNS
H <sub>1</sub> : There is a positive correlation between attitudes towards advertising in general and attitudes towards advertising on social networking sites.	Attitudes towards advertising SNSs	0.42	0.28	0.35	0.39	0.39	0.43	1.00

All correlations are significant at  $\alpha=0.05$

Table 6 above summarises the results for the hypotheses. The results indicate that we can accept hypotheses H<sub>1</sub> to H<sub>11</sub>. The one-tailed p-value of 0.00 is smaller than the significance level of 0.05; therefore we can reject the null hypothesis and accept the alternative hypothesis.

## DISCUSSION AND MANAGERIAL IMPLICATIONS

The purpose of this research was to explore how OWOM advertising on SNSs is perceived by young adults and its effect on WOM behaviour. The attitude towards advertising in more traditional forms of advertising versus advertising on SNSs was compared. Both received positive scores from respondents. Currently the positive attitudes indicate that marketers could consider creating a platform to strategically promote products and services on SNSs, but it is important to keep in mind that young adults may have different preferences and all industries may not be successful by advertising on SNSs. Social media involves listening and participating (Bloomberg, 2007:2) with this in mind, it is important to know the type of advertising needed on SNSs. A brand needs to actively participate with consumers in order to create a successful marketing campaign.

On SNSs, users want to do business with people they know (Bloomberg, 2007:2). The study indicates a relationship between social connection and advertising likeability (0.18) and between social connection and attitudes towards advertising on SNSs (0.28). Users of SNSs are not only connecting to people close to them, but are also using SNSs to connect to people out of their social connection. The weaker relationship between advertising likeability and social connection indicates that with the increase in the usage of SNSs, traditional advertising methods simply may not reach their target market with the same effectiveness. OWOM has become useful in sharing information therefore marketers can generate buzz by taking advantage of SNSs (Smith *et al.*, 2007).



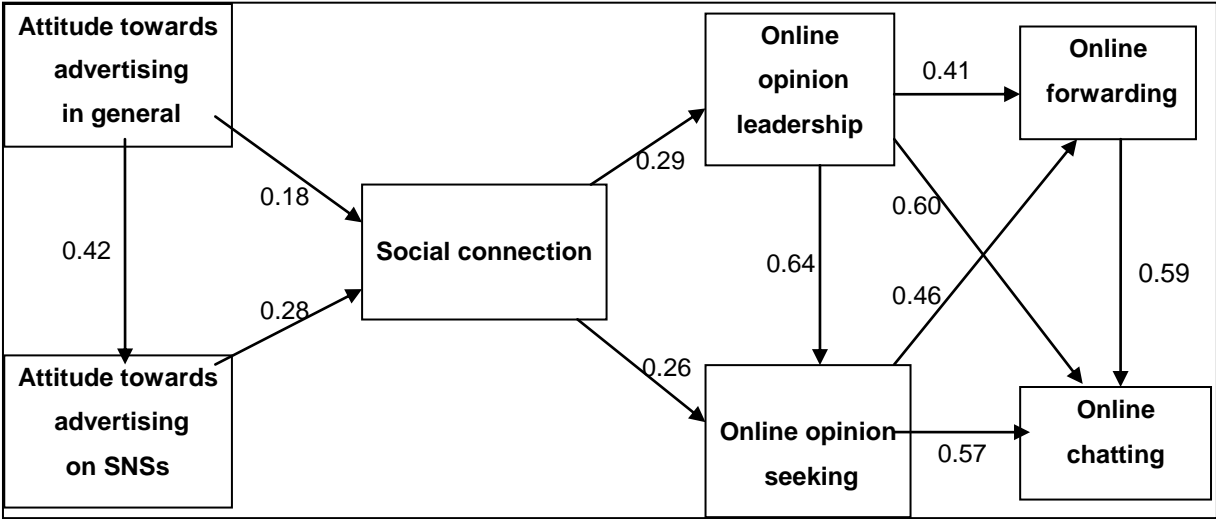
Opinion leaders and opinion seekers are still evident in the OWOM process on SNSs as with traditional WOM. This is in line with previous studies on OWOM (Richins & Root-Shaffer, 1988; Smith *et al.*, 2007). A strong positive correlation between opinion leadership and opinion seeking (0.64) was found, which indicates the use of OWOM on SNSs.

OWOM is about knowing what your customers are saying about your brand and connecting directly with them to build and enhance customer relationships (Jansen *et al.*, 2009). This study examined the behavioural consequences of OWOM. A strong positive correlation is found between online opinion leadership, online opinion seeking and the propensity to use online forwarding and online chatting as well as the propensity to use online forwarding will be positively related to online chatting behaviours. With the help of users of SNSs, marketers are able to spread information by the use of opinion leaders and seekers. The way users share information heavily impacts advertising. It is important to bear in mind that opinion leaders may also be opinion seekers and vice versa.

This study contradicts Vishwanath's (2006) study which indicates that opinion seekers are more socially connected than opinion leaders. This research indicates that opinion leaders are more socially connected than opinion seekers. However, the difference is too small to support or reject previous findings.

Figure 2 below illustrates the relationship between variables for OWOM.

**Figure 2: Theoretical model for online word of mouth advertising on social networking sites with correlations**



## **LIMITATIONS AND RECOMMENDATIONS FOR FUTURE RESEARCH**

It is important to bear in mind that respondents in this study are all on the same campus. Students are convenient subjects for academic researchers, but they don't represent the general population. The fact that the study was conducted solely among students, represents a major limitation. Other market segments are also important to consider, for example, adults who are users of SNSs. However, young adults represent the majority of users on SNSs and are considered acceptable to this study. Due to the fact that this study was conducted utilising a non-probability sampling method, the results may not be generalised to a larger population.

Given that a main component of these SNSs is the ability to keep in contact with one's social network, use of these SNSs and services cannot be viewed in isolation from the preferences that people use SNSs for different purposes. No SNS data was available to probe deeper into whether or to what extent students' preferences for one SNS over another are influenced by their friends', as well as the types of brands that users talk about. Nonetheless, based on what is known about these SNSs, it is fair to assume that one's existing offline network influences which SNS one embraces. It is reasonable to expect that students from similar backgrounds might migrate toward the same SNS. This study did not address a specific context or industry. Future research should examine advertising on SNSs with specific focus on product or service type. This will allow practitioners to implement marketing campaigns tailored to suit company objectives.

Facebook is still the most used SNS (94.7%) in SA, but SA users also use other SNSs simultaneously. When choosing a specific SNS to advertise on, marketers need to investigate how consumers use this SNS, the demographic profile of the target market and the types of advertising that is most effective. The positive attitudes towards advertising on SNSs are related to many factors. The effectiveness of OWOM advertising for different industries and the ability to gain a measurable return on investment may still be open to further research.

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## Appendix A

Online word of mouth involves the sharing of personal experiences and opinions on any topic of interest. Individuals who engage in online word of mouth may have a strong desire to fulfil their social needs. Social connection is the relationship that is created between friends, family and partners.

1. Which of the following **social networking site(s)** do you currently use? (*Please mark all options that apply*).

Facebook	1
LinkedIn	2
Mxit	3
MySpace	4
Twitter	5
YouTube	6
Other (please specify below)	7

<b>B: 2. Social connection:</b>		<b>Strongly disagree</b>	<b>Disagree</b>	<b>Neither agree nor disagree</b>	<b>Agree</b>	<b>Strongly agree</b>
<b>Please read each statement carefully and then indicate the extent to which you agree or disagree with each statement.</b>						
2.1	Since getting on a social networking site(s), I have become more connected to people like me.	1	2	3	4	5
2.2	Since getting on a social networking site(s), I have become more connected to people who share my hobbies/recreational activities through a social	1	2	3	4	5
2.3	I have become more connected to people in my family through a social networking site(s).	1	2	3	4	5
2.4	I have become more connected to people in similar life situations (e.g., self-help groups,	1	2	3	4	5

<b>3. Opinion leadership</b>		<b>Strongly disagree</b>	<b>Disagree</b>	<b>agree nor</b>	<b>Agree</b>	<b>Strongly agree</b>
3.1	I am the first to try new brands; therefore, many people regard me as a leader in this area.	1	2	3	4	5
3.2	My friends think of me as a good online source of information when it comes to buying brands.	1	2	3	4	5



<b>3. Opinion leadership</b>		<b>Strongly disagree</b>	<b>Disagree</b>	<b>agree nor</b>	<b>Agree</b>	<b>Strongly agree</b>
3.3	During the past six months, I have told my friends about the latest brands over social networking site(s)	1	2	3	4	5
3.4	Compared with my circle of friends, I am more likely to be asked about brands over social	1	2	3	4	5
3.5	I have the feeling that my friends regard me as a good online source of advice about brands.	1	2	3	4	5
3.6	Via social networking site(s), I like to influence the types of brands my friends choose.	1	2	3	4	5
3.7	Over the social networking site(s), I tend to influence people's opinions about some brands.	1	2	3	4	5
3.8	My friends tend to ask my advice about brands online	1	2	3	4	5

<b>4. Online opinion seeking</b>		<b>Strongly disagree</b>	<b>Disagree</b>	<b>agree nor</b>	<b>Agree</b>	<b>Strongly agree</b>
4.1	I tend to seek out or search for others' opinions or comments online regarding my interests and	1	2	3	4	5
4.2	I tend to search for the latest online information regarding brands I like.	1	2	3	4	5
4.3	Over social networking site(s), I tend to seek the advice of my friends regarding which brands I	1	2	3	4	5
4.4	When I consider choosing brands, I seek other people for advice via social networking site(s).	1	2	3	4	5
4.5	I feel more comfortable buying a brand when I have gotten other people's opinions on it over the	1	2	3	4	5
4.6	I tend to consult other people over the social network site(s), to help me choose the brands I	1	2	3	4	5
4.7	I like to seek out negative reviews about some brands on social networking site(s) before I make	1	2	3	4	5
4.8	I like to seek out positive reviews about some brands on social networking site(s), before I make	1	2	3	4	5

<b>5. Online forwarding</b>		<b>Strongly disagree</b>	<b>Disagree</b>	<b>agree nor disagree</b>	<b>Agree</b>	<b>Strongly agree</b>
5.1	I tend to use the „Send this site to my friend“ function in a social networking site(s), when I find	1	2	3	4	5
5.2	I like to forward my friends' message containing information or opinions about the brands that I	1	2	3	4	5
5.3	When I receive a forwarded message about a friend's favourite brands, I will forward the	1	2	3	4	5

5.4	I like forwarding interesting messages about brands from one group of my friends to another.	1	2	3	4	5
5.5	I tend to forward my friends positive reviews on brands.	1	2	3	4	5
5.6	I tend to forward my friends negative reviews on brands.	1	2	3	4	5

<b>6. Online chatting</b>		<b>Strongly disagree</b>	<b>Disagree</b>	<b>agree nor</b>	<b>Agree</b>	<b>Strongly agree</b>
6.1	While chatting online, I like to share with others some interesting brands that I like.	1	2	3	4	5
6.2	While chatting online, I like to share with others my favourite brands.	1	2	3	4	5
6.3	While chatting online, people tend to ask for my opinions about brands.	1	2	3	4	5
6.4	While chatting online, I tend to persuade others to buy the brands that I like.	1	2	3	4	5

<b>7. Attitudes towards advertising on social networking sites</b>		<b>Strongly disagree</b>	<b>Disagree</b>	<b>agree nor</b>	<b>Agree</b>	<b>Strongly agree</b>
7.1	I enjoy receiving messages on social networking sites.	1	2	3	4	5
7.2	I feel that social networking site(s) advertising is necessary.	1	2	3	4	5
7.3	I feel that social networking site(s) advertising keeps me informed.	1	2	3	4	5
7.4	I enjoy social networking site(s) advertising, because it helps me keep in touch with the brands that I like.	1	2	3	4	5

Q8. On the scale below, please indicate your current **attitudes towards advertising** that you receive in general.

8.1	Bad	1	2	3	4	5	6	7	Good
8.2	Unfavourable	1	2	3	4	5	6	7	Favourable
8.3	Negative	1	2	3	4	5	6	7	Positive

**QUALITY CHALLENGES IN FOCUS GROUP RESEARCH IN SOUTH  
AFRICA: A QUALITATIVE ANALYSIS**

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**KEY WORDS:** FOCUS GROUPS; QUALITY; CHALLENGES

# QUALITY CHALLENGES IN FOCUS GROUP RESEARCH IN SOUTH AFRICA: A QUALITATIVE ANALYSIS

## ABSTRACT

There are quality challenges that stem from research activities of practitioners in South Africa and relate to the misuse of the focus group method, which leads to research quality problems. The study sought to uncover the challenges that impede the quality of focus group research and highlight them for redress by stakeholder organisations. A qualitative study was conducted within Gauteng province. A non-probability judgement sample was drawn, and in-depth interviews were conducted on eighteen respondents at their workplaces during November 2010. The study revealed widespread abuse of focus groups and disregard for scientific principles of the method, deliberately or out of ignorance of research science, resulting in compromised quality of research output. The need for guidelines on the scientific application of focus groups was established, and will require education of practitioners and supervised enforcement in order to address research quality challenges identified.

**Keywords:** focus groups; challenges; quality

## **INTRODUCTION**

There are various challenges of quality that can be identified within the process of focus group research in South Africa. The different challenges stem from the research activities of practitioners within the local marketing research industry, and include specific instances of misuse of the focus group method. The misuse of the focus group method is attributed to ignorance about the basic principles of focus groups as a scientific method (Green and Green, 2005:1-9, Maree and Wagner, 2007: 121-134; Green, 2003a:2-4). Apart from that, certain malpractices on the method may be deliberately orchestrated due to the often rushed research project undertakings in the pursuit for profit, for example (Green, 2003b:2-4). Instances of dishonest practices are rife (Green and Green, 2005:1-9). South African research practitioners generally provide volumes of nice-to-know information that is of little value to research users (Gordon, 2004:1-5). Focus groups have been described in South African practice as being infamous, due to research quality challenges resulting from the abuse of the method (Martin, 2006:2-4). The numerous challenges on focus group research have implications for the quality of research produced when using the method. Also, there may be dire implications for research user organisations across different industries, as they use information of compromised quality for business decision making purposes or to inform further research. In particular, given that research user organisations may pay for flawed research studies at face value, due to lack of expertise on quality assessment, thereby risking failure.

As much as some of the key challenges identified relate to specific steps of the focus group process such as planning or moderation, others are of a universal nature and inherent across the spectrum of the focus group process. The profound nature of the research quality challenges ought to be seriously taken cognisance of if quality challenges identified are to be mitigated in marketing research in South Africa. Effectively mitigating the quality challenges may benefit all stakeholders across the local marketing research industry. The different challenges are discussed in two phases of this paper, that is, the literature review and empirical study. Each of the two phases is structured in terms of the focus group research process, which as stipulated in the

literature reviewed, comprises of planning, sampling, recruitment, moderation, recording, data analysis and reporting of findings.<sup>1</sup>

## **PROBLEM STATEMENT**

Reasonable evidence exists in the literature studied that various challenges are encountered in the practice of focus group research in South Africa. The different research quality challenges occur as a result of malpractices or misuse of the focus group method. The challenges compromise the quality of marketing research information supplied by practitioners within the local marketing research industry. The questionable quality of marketing information may have implications for the effectiveness of marketing decisions, strategic and otherwise, taken by research user organisations across the industry spectrum.

## **OBJECTIVE OF THE STUDY**

The primary objective of this study was to investigate the challenges that compromise the quality of focus group research in South Africa, and highlight the identified challenges in order to attract industry stakeholder attention. This way, actions may be taken to address the challenges, thus improve the quality of research information supplied by practitioners active in the local marketing research industry.

## **RESEARCH PROPOSITIONS OF THE STUDY**

The main assumptions of this study were firstly, research malpractices are rife and pose quality challenges. Secondly, there was lack of knowledge and understanding of industry dynamics and operations on the part of both research supplier and user organisations. Finally, it was assumed that South African research supplier organisations lack both the knowhow and urgency to apply focus groups as a scientific method, resulting in poor quality research information produced.

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<sup>1</sup> The seven steps of the focus group process are discussed specifically in another paper in the SAIMS conference 2011 proceedings entitled “A seven step process of conducting focus group research: A suggested framework for South Africa and beyond”.

## **SIGNIFICANCE OF THE STUDY**

The study investigated and highlighted challenges that impede the quality of focus group research, and presented an in-depth analysis and insight into the focus group research practices in South Africa. The research quality perceptions of both the research supplier and user organisations in South Africa were considered. This analysis may provide new knowledge and scientific evidence on research quality problems or gaps related to the use of the focus group research method, given that there is no evidence from the literature studied of any study that reviews challenges and the quality problems in local focus group research practice. Also, shedding light and understanding the research quality phenomenon may spur remedial actions by stakeholder organisations, inform new policy formulation and promote research quality standard regulation by industry associations.

## **RESEARCH METHODOLOGY**

Qualitative methodology helps discover deeper meanings and new insights from respondents (Zikmund and Babin, 2010:92). Accordingly, the methodology design for the study included the research population, sample frame, size and selection criteria, as well as data analysis procedures followed.

### **Research population and sample frame**

The population of interest for the study consisted of all South African organisations that supply or use marketing research information generated through the use of focus groups. A sample frame of over 250 research suppliers and 2000 active research user organisations, both registered and unregistered with SAMRA (Southern African Marketing Research Association) was used (SAMRA, 2010:77-99).

### **Sample size and selection criteria**

A sample can be defined as a subset, or some part of a larger population (Zikmund and Babin, 2010:301). The study sample consisted of two categories, that is, one for the research suppliers (n=8) after a point of saturation was reached, and the other for research user organisations (n=10), for a total sample size of 18 individual respondents. The rationale for the use of research

supplier and users was not only to achieve a balance in terms of representation of both research supplier and user organisations in the sample, but also to obtain perspectives from the two sides.

A non-probability judgement sample was drawn. Malhotra (2007:343) defines a judgemental sampling as a form of convenience sampling in which elements of the population are purposely selected based on the judgement of the researcher. In this regard, respondents from organisations currently active within the South African marketing research industry were considered. Only respondents from research supplier organisations that use focus groups, and research user organisations that have experienced or used research results derived from the use of focus groups were used. An informal screening procedure based on inquiries and checks on individuals' background was conducted.

### **Data collection and research instrument**

In-depth interviews were conducted for data collection purposes. The in-depth research method was deemed suited for this study because it offers unhindered conversations in a social sense. The in-depth interview method generates data in unconstrained but vivid atmosphere (De Rosia and Christensen, 2009:15-35; Lillrank, 2003:691-703). The identity of respondents was treated as confidential, given the competitive rivalry within the South African marketing research industry. Respondents were manually coded 1.2.3 etcetera for similar reasons.

A discussion guide was used as the data collection instrument, essentially to obtain pertinent opinions and views of representatives of both research supplier and user organisations. The discussion guide contained structured topics determined on the basis of issues arising from the literature reviewed. The discussion guide was deemed appropriate for purposes of the study because it allows for flexibility with respect to the use of in-depth interviews (n=18), where probing questions may be asked to get deeper and more elaborate explanations from the interview discussion (Zikmund and Babin, 2010:108). The discussion guide was pilot-tested on a total of 4 respondents, prior to the study being conducted, in order to refine the research topics.



## **Data processing and analysis**

A qualitative data processing and analysis approach was employed, and entailed data cleaning and preparation for quality purposes. This process involved general editing by checking the data for consistency, correctness and completeness (Malhotra, 2007:419; Nookabadi and Middle, 2001:657-670). The data was manually coded using number codes, and data that fell outside the coding procedure and any ambiguities identified were thus cleared to ensure reliability and accuracy of the data analysis process, as advocated by Segal, Hershberger and Osmonbekov (2009:70-82) and Famili (2005:417-418). A qualitative content analysis was conducted on transcripts produced, for the identification and categorisation of themes, trends, content and issues on quality challenges arising from the in-depth interviews (Ratcliff, 2008:116-133; Stavros and Westberg, 2009:307-320). As advocated by Keegan (2009:234-248) scientific rigour, reflection, analysis and interpretation of qualitative data was vigorously pursued.

## **PHASE 1: LITERATURE REVIEW**

The key quality challenges discussed in this section were identified within the seven steps of the focus group process, that is, planning, sampling, recruitment, moderation, recording, data analysis and reporting of focus group findings. Where-as some of the challenges may be universal internationally, others are unique to the South African industry setting.

### **Challenges within the planning step of the focus group process**

The planning and preparation step is key to the success of quality data generation through focus groups (Simon and Mosavel, 2008:63-81). Planning helps identify important issues to be addressed through focus groups (Courtois and Turtle, 2008:160-166). However, constrained planning may be evident in rushed marketing research project undertakings. Stanford and Gonier (2007:109-112) attest that today's marketing research industry is characterised by "quick and dirty" data and research users want "fast and cheap" information. The challenge is that "good scientifically valid research cannot be done both quickly and cheaply at the same time, without any quality trade-offs involved" (Stanford and Gonier, 2007). There is also a tendency, especially with regards applied, commercial research to ignore academic literature when planning and designing research projects in the South African industry (Maree and Wagner, 2007: 121-134). Another challenge relates to planning being done within a very short space of time (Pakenham, 2005:52-53). This often results in quality being sacrificed (Cant, Gerber-Nel, Kotze and Nel, 2003:5). Also, poor planning with respect to resource allocation is a challenge. Some local research suppliers purport to be consumer centric but allocate very little resources to research projects, and thus fail to reach the "heart of consumer power" (Falala, 2003:2-4). In other instances, general incompetence in planning stems from lack of attention to detail, or cutting of corners in the rush for profit (Green, 2003b:2-4). Inadequacies of planning by South African market research suppliers often result in the provision of volumes of nice-to-know information that is not valuable for strategic business decision making purposes (Gordon, 2004:1-5). Also, focus group planning is sometimes conducted out of ignorance of the fundamental marketing research process (Maree and Wagner, 2007:121-134), which could be the reason for various research malpractices in the South African marketing research industry. Even worse, SAMRA encourages self-regulation (SAMRA, 2010:63). Besides, there is no evidence of planning

procedures or framework in the literature reviewed, which relates to the South African situation. Accordingly, it may be appropriate for challenges on group sampling to be discussed immediately after the research planning step.

### **Challenges related to focus group sampling**

According to Kent (2007:94), it would be normal to run no more than twelve focus group sessions, because diminishing marginal returns set in thereafter and little more can be learnt from further group sessions. Essentially, this limits focus group research to small scale projects in terms of sample size, thus assessing quality based on limited sample sizes may be a challenge.

Reminiscent of qualitative research methods in general, the usually small focus group samples cannot constitute a representative sample, and thus generalisability of findings is constrained (Burns and Bush, 2006:214; Zikmund, 2003:127). Reliance on non-scientific procedures such as non-probability approaches for sample creation poses research validity concerns (Walden, 2006:76-93; Zikmund, 2003:134). Nonetheless, accurate determination of a focus group sample is crucial for effective respondent recruitment to take place.

### **Focus group respondent recruitment challenges**

Challenges within the recruitment step generally relate to the widespread abuse of focus groups and other qualitative research methods by research supplier and research user organisations alike, which may compromise the quality of research output (Martin, 2006:2-4; Green, 2005:1-9). Focus group respondent recruitment in marketing research and indeed across other research fields is a challenging task for researchers, as getting the best people for group interviews often proves to be difficult. Recruitment difficulties may have implications for the quality of focus group research projects and their outcomes. In addition, the spirit of volunteerism with respect to research projects in general may be diminishing across research cultures and disciplines where focus groups are used. Often, industry blames it on the increasingly powerful ethics committees which are perceived as hindering recruitment efforts. The impact of ethics related challenges has been acute in areas of focus group research such as the medical field for example, where research organisations such as pharmaceutical and biotechnology companies have been forced to allow an eighty percent failure rate on respondent recruitment (Beasley, 2008:74-74; Hewison, 2007:78-

80). In addition, lack of awareness about the importance of research studies is a major barrier to focus group participation, although this is more acute in the medical field where clinical research has a bad reputation (Mosavel and Oakar, 2009:341-349). Similarly, other barriers to effective recruitment include multicultural differences, lack of knowledge about the importance of research, and general bias against research which may lead to ineffectual recruitment. At individual level, barriers to recruitment in focus groups can be cited as distrust of research, lack of confidentiality, fear of safety, schedule conflicts, language and cultural differences as well as ignorance. The various impediments to effective recruitment not only constrain the application of methodologic rigor but also affect the quality of focus group research in general (Stacy, UyBico, Pavel and Gross, 2007:852-863). Apart from that, there is often a problem of over-researched areas where recruiters live. The other problem relates to cheating by some respondents and recruiters alike. Some repeat or fraudulent respondents, also described as professional respondents in marketing research, may construct themselves as sophisticated consumers and therefore good recruits, when their motive is to get cash prizes (Walden, 2006:76-93; Heiskanen, 2005:179-201). Often, cheating is because, unlike in many other areas of market research, respondents in focus groups are normally paid incentives for travel, time and inconvenience. Offering incentives to encourage participation is controversial, although it has been found to be effective in encouraging participation in focus group research. Some in marketing research see the issue of incentives as unethical in that it violates the ethical norms of the researcher-participant relationship by turning it into some kind of commercial relationship. Others claim it is exploitation of vulnerable individuals and also a risk in terms of biasing the study, due to the influence induced by the reward offered (Mosavel and Oakar, 2009:341-349). Some recruiters tend to resort to reliance on professional focus respondents, who are conveniently available and appropriately talkative (Zikmund, 2010:105). However, inclusion of habitual respondents may lead to validity problems of the research study (Burns and Bush, 2006:218).

Unscrupulous recruitment practices are rife when it comes to respondent selection for focus groups. Some moderators cover up on poor respondent selection through collusion with recruiters or out of fear as the reign of terror is commonplace in the South African industry. Recruiters often harass and threaten moderators if a respondent is dropped (Green and Green, 2005:1-9). Some recruiters pick lay people from taxi ranks and brief them on what to say as respondents.

Other recruiters are said to go to lengths to disguise repeats of regular participants by dressing them up in spectacles or wigs so they may not be recognised. In addition, researchers are often asked to fit many groups into short space of time, one group after the other, and thus quality of research may be compromised (Green and Green, 2005:1-9). As a general solution, equitable recruitment practices in multicultural societies can be essential to respondent recruitment malpractices, as advocated by Stacy *et al.*, (2007:852-863).

The difficulty of finding qualified participants can be a challenge across the focus group process (Zikmund, 2003:130). On one hand, the research industry tradition forbids the use of repeat respondents or those who have participated at another focus group in the previous six to twelve months (Louella, 2006:24-25). On the other hand, “virgin” participants are hard to find (Louella, 2006:24-25), more-so for at least four focus group sessions often regarded as the industry norm.

### **Challenges within the focus group moderation step**

Several challenges related to the moderation step of the focus group process are evident in the literature reviewed. A challenge might arise in instances where the focus group moderator is also the researcher on the study. The dual role can render the focus group method susceptible to bias, as group results may be easily misjudged. Bias may be brought to bear on the moderator as personal influence and experience might affect the moderator’s conduct of the discussion, particularly the line of questioning. This way, the efficacy of the focus group might be compromised (Malhotra, 2007:154; Churchill and Iacobucci, 2005:86; Hartman, 2004:402-410). The divided attention of respondents may amount to another challenging dual task if unchecked. That is, respondents are expected to pay attention, digest and dissect other people’s ideas, while at the same time generating their own, which may lead to cognitive overload that inhibits the ideation process (Baruah and Paulus, 2009:29-56). Also, focus groups require objective, sensitive and effective moderators, but skilled and experienced moderators are few and not easy to hire. It is difficult for the moderator to remain objective given the various distractions that often arise from aspects of group sessions (Zikmund and Babin, 2010:113). Besides, research questions are not asked the same way each time in focus group interviews (Burns and Bush, 2006:214), which is a moderator related problem. Similarly, the debriefing session tends to pre-empt the final result of the focus group discussions. The worst case scenario may be instances where there is change

of opinion after the final analysis on the part of the moderator (McDaniel and Gates, 2006:94). Another moderator specific challenge relates to lack of expertise in conducting a complex form of focus group discussion such as a clinical focus group, where high level expertise is necessary. Use of inappropriately skilled moderators may contribute to the difficulty often encountered in validating such findings (Aaker, Day and Kumar, 2007:197). After moderation, accurate recording of focus group data is essential for ease of analysis and correct interpretation of the data, as discussed in the next section.

### **Challenges on recording of focus group discussions**

Challenges related to the system of audio recording may arise in instances where only audiotapes are used. Audio-tapes do not allow for identification of individual speakers within the data transcription, which makes it impossible for the researcher to analyse participants' perception changes on the basis of input from other respondents (Kress and Shoffner, 2007:189-195). After all data has been recorded, it must be taken for analysis.

### **Challenges encountered within the focus group data analysis step**

Certain challenges may be encountered in the data analysis stage because of the subjective nature of the evaluation approach in terms of what was said in the focus group interview. The identification of who said what for analysis purposes is also difficult. The analysis of focus group findings is thus subject to researcher bias, which may hinder scientific rigour (Doyle, 2008:232-233; Walden, 2006:76-93), apart from accurate reporting of focus group findings. Similarly, analysis of focus group data can be very complex, given that large quantities of narratives are often generated (Simon and Mosavel, 2008:63-81). Similarly, the analysis and interpretation of focus group data can be complex because of the disparate comments usually generated during focus group discussions. This opens up the data to wide ranging subjective interpretation, as any analyst might find a viewpoint that is more acceptable than others given his or her view of the research problem. Despite being a challenging task, data analysis must be systematic, verifiable and within the context of the study (Simon and Mosavel, 2008:63-81), and this may aid accurate reporting in focus group research.

### **Challenges relating to reporting of focus group findings**

Given that marketing research reports in general are not standard across projects, but are tailored to specific audiences and research purpose, there is no particular format or style to be followed in focus group research (Burns and Bush, 2006:600). Once finalised, it would be prudent that the focus group research report is evaluated to ensure scientific rigour. However, there is little evidence of report evaluations in South Africa in the literature reviewed. Suitable report evaluation criteria may involve for instance, a checklist of relevant questions with respect to the different components of the research study and design, that is, from title, statement of the problem, literature review, research design and findings of the study, among other things (Welman, Kruger and Mitchell, 2005:2). As Ervin and Cowell (2004:183-190) advocate, one skill that is useful in research and practice is being able to conduct focus groups from planning to reporting of findings.

Other challenges are of a general nature across the focus group process, and relate to inherent limitations of focus groups as a scientific method, and the misuse of the method by research practitioners in marketing research in South Africa.

**Limitations of focus groups as a research method:** focus groups have the potential to increase the appeal for quick and simple answers to otherwise complicated research problems, and thus decrease willingness to go for complexity and deeper investigation on the part of researchers. In addition, the way in which focus group findings can be interpreted or understood may mislead instead of inform decision makers, as focus groups tend to give the impression that the situation is really understood (McDaniel and Gates, 2006:93). Burns and Bush (2006:216) confirm that focus groups only play a descriptive role and are limited to enhancing understanding of findings of other methods. Apart from that, focus group data at times may look messy, and the unstructured nature of the responses makes coding, analysis and interpretation difficult (Malhotra, 2007:154). Besides, conducting focus groups may look like a chaotic research exercise (Hartman, 2004:402-410).

**Vulnerability to domination by an individual:** the open nature of focus groups make them vulnerable to domination by a moderator or a participant and all members of the group may not

be well represented in the discussion (Courtois and Turtle, 2008:160-166). Apart from that, focus group respondents can pose problem, as introverted respondents may not like to speak out in group settings, while extroverts can dominate the discussion (McDaniel and Gates, 2006:95).

**The low cost benefits of focus groups can be questionable:** Stokes and Bergin (2006:26-37) argue that previous research has shown that when systematically tested, the low cost benefit was called into question. Zikmund and Babin (2010:113) posit that conducting focus groups may have high cost implications especially when the focus group is run by a hired consultant.

**General misuse of focus groups in marketing research in South Africa:** the focus group method is generally subjected to misuse within the practice of marketing research internationally, and also in South Africa, across the focus group process (McDaniel and Gates, 2006:104; Martin, 2006:2-4). As Martin (2006:2-4) asserts, focus groups have been described in South African practice as being infamous, because they have been abused by researchers and clients alike in the local industry.

**General practitioner incompetence:** practitioner incompetence for example, often back-checking of questionnaires or discussion guides is not done as researchers operate in a pressured environment due to time constraints (Green and Green, 2005:1-9). The rushed research projects and condensed time lines may have implications for research quality (Biesta, 2007:1-2; Dennis, Valacich, Fuller and Scheneider, 2006:1-12).

**Questionable research skills:** focus group research skills of some research suppliers are questionable, and may lead to industry misuse of the method. For example, some research suppliers tend to “blindly and hurriedly” use research methods or tools without much consideration and scrutiny (Kolb, 2005:2-4), as the focus is on profit making (Falala, 2003:2-4).

**Lack of enforcement of industry regulations:** lack of enforcement of industry practice regulations to ensure compliance may be a contributing factor to the misuse of the focus group method in South Africa. Industry regulations and monitoring or supervision is essential to ensure integrity of the research studies, focus groups or otherwise as advocated by Ervin and Cowell



(2004:183-190). However, there is insufficient evidence to suggest that effective quality monitoring mechanisms within the South African marketing research practice exist, let alone enforcement.

**Disregard for research service contracts:** Green and Green (2005:1-9) assert that an interlude of problems include a system of non-payment of focus group industry service providers such as recruiters for example. Often this is said to happen when one of the respondents fail to turn up for the interview. At times incorrectly recruited respondents are asked to leave and the recruiter does not get paid, not only for the incorrect recruit but also for the rest of the group. At other times incorrectly recruited respondents are asked to stay on, to avoid loss of income for the recruiter and other parties involved.

**Ignorance on how the industry operates:** general ignorance on how the industry operates, particularly on the part of some research user organisations is evident in the local industry literature reviewed, and this may exacerbate issues of malpractice in the marketing research industry. Henderson (2007:12-12) adds that low levels of expertise, experience and education in the practice are factors that compromise the quality of research. Research users often request and pay for flawed research studies at face value, out of ignorance of research science and limitations of the method used thereof, thereby risking failure (Green and Green, 2005:1-9, Maree and Wagner, 2007: 121-134; Green, 2003a:2-4). However, despite the many challenges highlighted in this paper, the immediacy of focus group findings is an important reason for focus group preference by research practitioners and research clients alike (Ervin and Cowell, 2004:183-190).

## **PHASE 2: EMPIRICAL STUDY-QUALITATIVE FINDINGS**

Given the wide range of challenges relating to the use of focus groups discussed in the preceding section, a qualitative study was conducted in order to validate the theoretical evidence of the different challenges, and their impact on focus group research quality. Most of the challenges identified in the literature studied were confirmed and corroborated through the qualitative phase of the study, across the focus group research process. Key challenges identified in the empirical phase are thus discussed per step of the focus group research process. Many direct quotations from interview participants were used in this phase of the study, without attributing them to specific respondents in order to protect the identity of the participants.<sup>2</sup>

### **Challenges relating to planning in focus group research**

Most of the respondents interviewed claimed to be involved in focus group planning and several challenges were cited. Insufficient cooperation among research participants, tight and sometimes inflexible project time-frames often lead to rushed project planning. The hands-off approach often employed by some research clients complicates the planning process. Similarly, prescriptive and dictatorial tendencies are commonplace, when research clients attempt to influence the planning of the direction of the project. Many respondents alluded to the fact that indeed “the biggest challenge with planning is that you tend to be prescribed to”. Also, client ignorance about their own target market demographics often complicate planning, despite the premise that they should be the experts in this area. Indeed, “yes, sometimes you are forced to shoot in the dark”. The various challenges on planning generally lead to poor execution of focus group projects and compromise the quality of focus group research.

### **Sampling related challenges**

Respondents interviewed cited lack of clear or standard procedures on sampling as a challenge, which often leads to chaotic and disparate sampling practices, most of which are self-guessed or assumed to be relevant and effective by the practitioner. The target sample may be difficult to determine especially in instances where the research client has limited knowledge about their

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<sup>2</sup> Direct quotations have been used for purposes of confirming the collective and general feelings or views expressed by respondents in the study. Thus, no attribution to specific respondents was made in order to protect the identity of the participants as agreed during the interviews.

market. “Yes, it is sometimes difficult because clients don’t know about their markets”. Sometimes incorrect or no information on the target sample is provided, deliberately or out of ignorance of what is required. Sample bias often results from research users insisting on inclusion of certain categories of consumers against the researcher’s expert opinion. Some research practitioners admit not objecting to clients’ demands or interference in order to sustain a business relationship, despite the risk of compromising research quality.

### **Recruitment related challenges**

The various challenges relating to recruitment in the focus group process were said to stem from the role of both research practitioners and their hired recruitment agents. The more pertinent challenges cited by most respondents include resistance to recruitment in focus group research, which was acknowledged as a universal challenge by suppliers and users alike. In particular, when “high LSM people are involved”. Compatibility of recruitment approaches of outsourced research specialists and standard recruitment criteria of some research practitioners is often a challenge as divergent research techniques or approaches may be difficult to reconcile on a project, with implications for quality. Lack of defined procedures to guide the recruitment process has often manifested itself in the chaotic nature with which many practitioners carry out the recruitment function. Apart from that, ignorance of research users about the recruitment process was expressed as a major concern, as project timelines are set out of ignorance about what the project really entails, what the recruitment process involves, and the challenges thereof. Also, over reliance on trust and long term relationships among stakeholders and participants on research projects emerged as a challenge where protection of contracts and relationships take precedence over quality control. Finally, dishonest recruiters and respondents alike, often referred to as groupies, tend to compromise research quality at this stage. The problem of groupies was acknowledged as being inherent in the marketing research industry. Groupies see incentives provided for participation as some form of gain or income and thus a challenge to quality recruitment. Nonetheless, incentives have to be paid out in order to overcome resistance to focus group participation, and many respondents admitted thus “we pay them, we give them vouchers and it works best”.

## **Moderation related challenges**

Ironically, challenges relating to the moderation step of the focus group research may be complex. It emerged from those interviewed that most practitioners and users alike are oblivious that moderation is a scientific process and must be applied as such. A few respondents believed moderation is a creative process somehow divorced from the practice of research science.

The moderation qualities, technical or otherwise of the moderators available were cited as a challenge, with respect to the following key areas of focus group research. Skills and experience of the moderators in specific consumer categories were cited as the most critical qualities desired, albeit in short supply, leading to sharing and recycling of the few available moderators in order to minimise the risk of poor quality moderation. Lack of training for moderators, because of time and budget constraints is often a concern. At times moderators are ill-prepared on specific projects because of their limited availability for training or briefing. Also, rushed moderation happened because the corporate environment research is a rushed process, “because we do hit and runs we don’t do according to the book you see, and the interest is on facts and results”. In addition, some practitioners interviewed said that the involvement of client observers during group discussions can be disruptive, counter-productive, although a few others claimed “not that it’s impacting on my quality at the moment”.

It emerged that sometimes observers tend to argue or object to focus group proceedings or even findings, and often, out of ignorance or without facts as a basis. In particular, some client observers often do not attend all the sessions, sometimes rush to conclusions, form solid opinions after observing just the first session, misunderstand or misinterpret meanings from group dynamics and end up arguing with the researchers. Sometimes the researcher and client may end up with different impressions, interpretations and positions on the outcomes of the group discussions, which can be difficult to reconcile. Other key challenges cited by respondents include:

- The freelance nature of moderator operations meant they are often “in and out on projects”, and thus project flow, continuity and more importantly, quality controls cannot be guaranteed. Out of ignorance or lack of choice, some practitioners continue to use the few

available moderators even when it is common knowledge that some are out to make money rather than honestly contribute value to the project.

- The poor language ability of some of the moderators is often a barrier to quality of research, particularly when technical terms or multi-disciplinary issues involving diverse groups are discussed.
- Moderation is viewed as a specialized skill and thus tends to be left to outside consultants. However, evaluation of moderation performance for quality reasons is said to be hardly possible, due to lack of expertise on the moderation process in South Africa.

### **Challenges relating to recording of focus group discussions**

Most of the respondents cited the challenges of limited involvement or lack of sense of involvement and interest on the part of research users when it comes to recording of group discussions. Research users interviewed argue that recording is the sole responsibility of suppliers, for which they pay a lot, “yes, we pay a lot of money”, hence the hands-off approach they employ. As many of those interviewed admitted, no quality measure or controls are considered by most research users on data recording. There are no particular measures most research users consider to ensure data capturing is done efficiently. Most tend to rely on their relationship with research suppliers which are fundamentally based on trust, and “we do get the value for our money” for recording quality. It is therefore not unusual as some researchers attested, to perpetuate and get away with flawed research output under current industry conditions. In addition, accurately interpreting the captured feelings and expressions conveyed by the group during discussions was said to be a challenge that required skilled resources which are said to be scarce.

### **Challenges within the data analysis step**

A wide range of challenges encountered within the data analysis step of focus group research were cited. To most research suppliers, conducting random checks on data is viewed as adequate data analysis, and following scientific or stipulated data analysis procedures is often ignored. In this regard, the challenge is a haphazard, unsystematic and chaotic data analysis with implications for quality. Also, lack of particular procedures or guidelines to be followed, apart from checking

and verification of facts arising from the focus group discussions were cited. Often, self-guessed analysis procedures and checks are used with varying degrees of research quality output.

Some research suppliers regard the analysis step as where the creativity must come in, and claim “it’s creative space”. However, the data may become less scientific as a result. The challenge is that less scientifically derived data may be fraught with quality problems and thus lacks credibility. Also, it emerged that in instances where software is available for data analysis, it is patented property, and remains the intellectual property of the research supplier, and other research suppliers may not have access to it. Sharing is currently not in the culture of many researchers in the South African practice. Similarly, data analysis specialists often used by suppliers are not always involved from planning, moderation or other steps, thus may lack background on the issues raised in the data collected, leading to misinterpretation and other research quality problems. Apart from that, “dropped-in” data analysts from outside might not comprehend the research context thus misinterpret focus group findings.

Data analysis is said to very laborious and drawn out and thus required application of scientific rigour. In particular, transcript analysis is a concern for most, and because it is generally viewed as being too laborious, some people deliberately overlook some of the sections or “cut corners” thereby compromising quality of research output. It was claimed, “practitioners can cut just about any corner that they can”. Bad quality transcripts often produced change the meaning of what was actually said and thus can affect the quality of research findings. Some respondents admitted to using transcripts only when there is particularly interesting findings or when further research is necessary on the project. Besides, data verification procedures on transcripts or audio recording for example, are often self-guessed and quality flaws may be overlooked.

### **Challenges relating to the reporting of focus group findings**

Challenges relating to reporting of focus group findings were reported by respondents as wide ranging. Most respondents professed lack of defined standards when it comes to reporting focus group findings, leading to self-guessed reporting criterion, which do not often promote the pursuit for reporting excellence in focus group research. However, most of the respondents

contend that reporting success all depends on the attainment of project objectives stipulated and nature or design of the study undertaken, rather than some defined standard.

Prescriptive research users pose ethical and quality challenges for most research suppliers in the field. Research suppliers admit that if unchecked, the hidden agendas of some research users often amount to interference and tampering with the findings of the study, thus “skew the direction of your report in a particular direction”. Some research users even provide the research suppliers with a reporting template stating what must be said in the report, which may compromise the integrity of the research. Further, it was acknowledged by some respondents, that often most research users and some suppliers tend to treat and apply focus group findings as conclusive research evidence rather than tentative. Common practice shows that most users ask for focus group research as once off projects in order to inform quick decision making. The risk of using untested research findings may be dire, as not only decision making consequences may be brought to bear, especially for the research user but also the scientific integrity of the research community may be compromised.

### **Challenges universal across the focus group process**

Several challenges universal across the focus group process were cited by those interviewed as the following:

- General lack of research skills and technical knowhow on the focus group research process were confirmed by the interviewees.
- General ignorance of marketing research science, including basic scientific research principles relating to focus group practice were confirmed as common.
- Practitioner incompetence emerged as a challenge across the focus group process.
- Use of unqualified participants due to the difficulty in finding suitable respondents was cited as common practice.
- Focus groups are believed to provide simple answers, more appealing than the need for deeper investigation, and this leads to their application even when they may not be the most suitable method.
- General malpractices on focus groups were acknowledged as rife, and attributed to the stiff operational conditions within the South African marketing research practice.

## **CONCLUSION**

It is evident from the findings of this study that numerous challenges are encountered in focus group research undertakings, and that the impact these challenges exert on the quality of research produced is profound. To a very large extent, the research challenges and their impact on focus group research quality reported in the literature have been confirmed through the qualitative study, despite being a tentative corroboration. Essentially, a definitive picture or depiction of the state of focus group research in South Africa has been achieved. The study confirmed the research malpractices, more specifically the misuse of the focus group method which was reported as rife, and related mainly to the activities of research practitioners. Instances of research malpractice thrived in the current chaotic operational conditions in the marketing research industry. Evidently, the various malpractices on focus groups emanate from general ignorance of marketing research science in practice, but in some cases they are deliberately committed, because cutting corners within the research process is seen as the easier and cheaper option for many research practitioners. The unfortunate result is the quality trade-off. Even worse, purchasers of the research service never get to ascertain the level of quality of the research they pay for, due to lack of expertise, and knowhow, technical and otherwise. The unscientific application of the focus group method, coupled with lack of adherence to basic scientific principles is perpetuated by tough operational conditions in South African environment. Self-regulation is more pronounced than enforcement of quality standards in South Africa, in cases where such standards are defined. For these reasons, research practitioners can afford not to mitigate, but also contribute immensely to challenges that constrain the quality of focus group research output in South Africa, and evidently get away with it. It will be the purpose of the next conclusive study to reflect on possible solutions to the many challenges identified, which beset the application of focus groups and have implications for quality.

## **LIMITATIONS**

The main limitation of this study is the tentative nature of qualitative research findings, hence conclusive quantitative research has been proposed. The exploratory nature of the study meant that theoretical evidence analysed in the literature could only be confirmed as verbatim material,



without the possibility of being tested for veracity and integrity and in order to confirm its quality.

## **RECOMMENDATIONS FOR FUTURE RESEARCH**

A further study ought to be conducted in order to provide definitive conclusion on the qualitative findings relating to the various challenges identified, albeit tentatively through this study. Summative conclusions will be important in determining whether or not further research may be necessary with a view to finding solutions to identified challenges, and even future challenges that may constrain production of good quality focus group research by practitioners in South Africa.

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**SERVICE DELIVERY PERCEPTIONS AND ATTITUDE TOWARDS  
COMPLAINING OF REGULAR AND OCCASIONAL RESTAURANT  
PATRONS**

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**Full length paper for the competitive stream: C34**

# **SERVICE PERCEPTIONS AND ATTITUDE TOWARDS COMPLAINING OF REGULAR AND OCCASIONAL RESTAURANT PATRONS**

## **ABSTRACT**

This paper considers customer satisfaction, customer complaint behaviour and attitude towards complaining in the South African restaurant industry. Consumer behaviour dictates that a number of customers do not make the effort to complain about poor service but rather leave to never return to the restaurant where they experienced the unsatisfactory service. In this regard, it is imperative that restaurateurs find a way to capture negative service experiences and act upon them in order to restore trust and confidence in the restaurant in an effort to restore customer satisfaction. By doing so, restaurants could possibly increase customer loyalty and ultimately retain customers. By determining customers' attitudes towards complaining, restaurants can determine if, and in which manner, customers will complain. The objectives set for this paper were to explore regular and occasional restaurant patrons' perceptions of service and their attitudes towards complaining. Non-probability convenience sampling was used to gather data from 320 restaurant patrons in Gauteng. Findings indicate that respondents rate the services offered by the restaurant they most often frequent higher than other restaurants, as well as general services in South Africa. In addition, regular restaurant patrons had a significantly more positive attitude towards complaining than occasional restaurant patrons.

**Keywords:** Customer complaint behaviour (CCB); attitude; attitude towards complaining (ATC); restaurant industry



## INTRODUCTION

Although it seems obvious that a pleasant dining experience is critical to the prosperity of restaurants, the high contact and multi-stage nature of restaurant services lead to inconsistent service delivery, often resulting in an unsatisfactory dining experience and hence customer dissatisfaction (Emir, 2011: 4242; Namkung & Jang *in* McQuilken & Robertson, 2011: 953; Kim & Chen, 2010:96). This should be of concern to restaurateurs because of the difficulty of creating and sustaining a competitive advantage in the highly competitive restaurant industry (McQuilken & Robertson, 2011: 953; Velázquez, Blasco, Saura & Contri, 2010: 541; Li, 2010: 3).

Restaurateurs should encourage their customers to complain directly to the restaurateur since the implementation of service recovery strategies following a service failure depends on customers voicing that a problem was indeed experienced (McQuilken & Robertson, 2011: 953; Priluck & Lala, 2009: 42). Service recovery, in turn, is important to retain customers and particularly so in the restaurant industry where it is estimated that repeat customers account for between 60 and 75% of restaurants' sales (Tanyeri & Cobe *in* McQuilken & Robertson, 2011: 953). By encouraging customers to complain directly to them, restaurants are given a second chance through service recovery to build customer trust and restore confidence in the restaurant (Kim & Chen, 2010: 97), thereby encouraging future patronage (Li, 2010: 3; Priluck & Lala, 2009: 42).

However, despite the value of customer complaints, most customers do not complain to service providers (McQuilken & Robertson, 2011: 953; Shiffman & Kanuk, 2010: 63), but choose to either never return to the restaurant again or to rather engage in negative word-of-mouth communication (McQuilken & Robertson, 2011: 953; Yuksel, Kilinc & Yuksel, 2006: 11). Not complaining and rather choosing to do nothing or complaining to a third party does not give the restaurant the opportunity to recover from a service failure (Kim, Wang & Mattila, 2010: 975). Restaurant managers and staff should therefore actively try to solicit feedback from their patrons (Cheng & Lam, 2008: 560).

As can be deduced from this discussion, restaurants can benefit from studying customer complaint behaviour. One particular topic relating to customer complaint behaviour that could potentially provide marketers with useful insights into why customers do or do not complain,

is that of customers' attitudes towards complaining. Jin (2010: 97) explains that customer attitude towards complaining is an important indicator of whether, and if indeed so, in which manner customers will complain. Customers' attitudes towards complaining are therefore not only relevant in terms of whether or not they will complain – but also on how they will respond. This view is supported by Velázquez, Contri, Saura and Blasco (2006: 510), who suggest that, in a restaurant setting, complaints do not always come from patrons who are very dissatisfied, but rather by those who have a positive attitude towards complaining. It is furthermore believed that customers' past experience may influence the likelihood that they will complain (Hoyer & MacInnis, 2010: 287) and that customers' attitudes towards complaining are more predictive of behaviour among more experienced than inexperienced customers (Velázquez *et al.*, 2010: 540; Thøgersen, Juhl & Poulsen, 2009: 772).

The purpose of this study is to explore customer complaint behaviour by specifically studying regular and occasional restaurant patrons' perceptions of service in general in South Africa, in the restaurant industry in South Africa and at the restaurant they visit most often as well as their attitudes towards complaining.

## **THEORETICAL OVERVIEW**

It is generally accepted in literature that consumer behaviour and decision-making are influenced by both external influences (including culture, social class, reference group and the family) and internal influences (including perceptions, attitudes, learning, motivation and personality) (Hawkins & Mothersbaugh, 2010: 2; Hoyer & MacInnis, 2010: 11; Schiffman & Kanuk, 2010: 483; Blackwell, Miniard & Engel, 2006: 85). The theoretical overview will elucidate two internal influences on consumer behaviour, namely perceptions and attitudes, in addition to two other relevant concepts to this study, namely customer complaint behaviour and attitude towards complaining.

### **Consumer perception**

Perception refers to the process whereby consumers select, organise and interpret stimuli – that is, the way in which consumers see the world around them (Schiffman & Kanuk, 2010: 175; Solomon, Bamossy, Askegaard & Hogg, 2006: 36; Wright, 2006: 106). Consumers accordingly have different perceptions because of the selective manner in which they expose themselves to stimuli, pay attention to stimuli and due to the highly subjective process

whereby stimuli are interpreted (Hawkins & Mothersbaugh, 2010: 278). Schiffman and Kanuk (2010: 175) support this view by explaining that although two consumers are exposed to the same stimuli under the same conditions, the way in which the stimuli are interpreted is a highly individualised process based on each person's expectations, values and needs.

It should be noted, as conclusion to this discussion, that perceptions and attitudes are inter-related as the one influences the other – consumers may accordingly change their attitudes to match their perceptions or change their perceptions to match their attitudes (Wright, 2006:271).

### **Consumer attitude**

Attitude can be defined as a learned predisposition to consistently respond either favourably or unfavourably with regard to an object or situation (Hawkins & Mothersbaugh, 2010: 392; Schiffman & Kanuk, 2010: 246). More simplistically, an attitude is the way in which people think, feel and act towards something in their environment, such as a product, brand or service encounter (Hawkins & Mothersbaugh, 2010: 392). Attitudes can therefore be positive or negative, depending on the object of the attitude and the situation (Wright, 2006: 264).

As Wright (2006: 256) explains, people are not born with attitudes – attitudes are feelings and beliefs formed over a lifetime through learning and interacting with people and objects. The stronger people's beliefs are about something, the stronger their attitudes will become and the more likely it will be to influence their behaviour. Schiffman and Kanuk (2010: 247) add by explaining that attitudes have a motivational quality in that they may push consumers towards or keep them away from behaving in a particular way.

Blackwell *et al.* (2006: 392) argue that marketers are very interested in consumer attitudes as attitudes influence consumer purchase and consumption decisions. Hoyer and MacInnis (2010: 122) concur – marketers have to understand and change consumer attitudes if they wish to influence consumer behaviour and decision-making as attitudes influence how people think, feel and behave.

## **Customer complaint behaviour**

Customer complaint behaviour (CCB) is defined in the seminal work on CCB by Singh (1988: 94) as “a set of multiple (behavioral and nonbehavioral) responses, some or all of which are triggered by perceived dissatisfaction with a purchase episode”. Tronvoll (2011: 111) adds to this definition by explaining CCB as a process that emerges when customers experience service that does not meet their minimum expectations. Hawkins and Mothersbaugh (2010: 636) continue by explaining that customers first have to decide whether or not any external action should be taken when their minimum service expectations have not been met. This decision depends on a number of factors, including the customer’s overall level of satisfaction with the product or service, the importance of the product or service to the customer, the ease with which action can be taken, and even the customer’s own characteristics. It is important to note that customers who do not complain would at best have a less favourable attitude towards the product or service (Hawkins & Mothersbaugh, 2010: 636) or at worst defect to a competitor (Larivet & Brouard, 2010: 539; Schiffman & Kanuk, 2010: 63).

Tronvoll (2011: 111) summarises Sing (1988) and Day and Landon’s (1977) seminal work on the outcomes of customer complaint behaviour as private actions (negative word-of-mouth), voice (seeking redress from the service provider) and third-party actions (complaining to an external third party or taking legal action). Even though other researchers have different labels for these outcomes, the classification originally suggested by Singh (1988) and Day and Landon (1977) appears to be still relevant and basic to the study of CCB (Ndubisi & Ling, 2005: 67). Within a restaurant setting, Emir (2011: 4246) indicates that most dissatisfied patrons either chose to take no action or to defect to a competitor. These findings are supported by other studies in the restaurant industry where a large percentage of patrons took no action nor reported their complaints (Su & Bowen, 2011 and Stephens & Gwinner, 1998 *in* Emir, 2011: 4246). Those patrons who engaged in complaint behaviour in Emir’s (2011: 4246) study did so by voicing their complaints to the restaurant manager.

From this discussion it becomes clear that the best possible response from a restaurant’s point of view is that customers complain directly to the restaurant’s management or staff as that affords restaurateurs the opportunity to rectify the situation (Hawkins & Mothersbaugh, 2010: 636), thereby increasing the chances of retaining the customer (Hoyer & MacInnis, 2010: 288; Priluck & Lala, 2009: 42). Restaurants encouraging customer to complain will therefore

receive valuable feedback from customers, which would enable them to effectively recover from a service failure – possibly leading to greater customer satisfaction and loyalty (Kim *et al.*, 2010: 975) and even a competitive advantage (Thøgersen *et al.*, 2009: 761).

Despite the importance of encouraging customer complaints, most customers do not complain, often due to the emotional stress involved in complaining (Gustafsson, 2009: 1220). The unwillingness of customers who experienced an unsatisfactory service encounter to complain is evident when considering that it has been estimated that only as little as 5 to 10% of dissatisfied customers complain to service providers (Shiffman & Kanuk, 2010: 63; Boshoff & Du Plessis, 2009: 340). This poses a serious problem to restaurateurs since they will not be afforded the opportunity to offer service recovery if patrons do not complain directly to the restaurant's management or staff (Kim *et al.*, 2010: 975).

From the discussion it can be surmised that it is in the best interest of restaurants to encourage customers to complain (Cheng & Lam, 2008:560) as this affords restaurateurs the opportunity to rectify the situation through effective service recovery (Hoyer & MacInnis, 2010: 287). Effective service recovery, in turn, could result in increased customer satisfaction, loyalty and retention (Kim *et al.*, 2010: 975; Choi & Mattila, 2008: 24).

### **Attitude towards complaining**

Customers' attitude towards complaining (ATC) does not refer to a specific episode of dissatisfaction but should rather be viewed as the overall effect of "goodness" or "badness" of complaining to service providers (Singh & Wilkes, 1996:353; Singh, 1989:330). Attitude towards complaining is therefore not restricted to a specific dissatisfaction situation but rather a customer's general predisposition towards seeking redress from service providers when experiencing dissatisfaction with a product or service (de Matos, Rossi, Veiga & Viera, 2009: 463).

The study of customers' ATC is important since it is argued that customers' ATC influences their intentions on whether or not to act following an unsatisfactory service encounter (Kim & Boo, 2011: 232; Jin, 2010:90; Thøgersen *et al.*, 2009: 760). A number of studies on customers' ATC support this view by determining that ATC is positively related to the intention to complain (Kim & Boo, 2011: 232; Velázquez *et al.*, 2010: 540-541; Yuksel *et al.*, 2006: 22).

Kim and Chen (2010: 102) profess that customers with a positive ATC will express their dissatisfaction directly towards service providers, whereas those with a negative ATC would not want to express their dissatisfaction. Customers with a positive ATC will accordingly in all likelihood engage in voice responses and have a lower tendency to pursue other forms of complaint behaviour (Kim & Chen, 2010: 107; Yuksel *et al.*, 2006: 22), whereas those with a negative ATC will be more likely to display switching behaviour (Yuksel *et al.*, 2006: 22).

## **PROBLEM STATEMENT, OBJECTIVES AND HYPOTHESES**

While the study of customer complaint behaviour dates back to the 1970s, Velázquez *et al.* (2010: 532) and Li (2010:3) are of the opinion that it is still relevant today to both service providers and academics as knowledge of this form of customer behaviour is critical in an ever-increasing competitive market. The study of CCB and ATC is particularly relevant in the restaurant industry due to a number of reasons, including the competitive nature of this industry (McQuilken & Robertson, 2011: 953; Velázquez *et al.*, 2010: 541), frequent occurrence of service failures due to the human involvement in service delivery (so-called heterogeneity)(Li, 2010: 3; Gustafsson, 2009: 1220; De Run & Ting, 2006:95) and because researchers in the restaurant industry have paid little attention to understand just how individual characteristics (including attitude and in particular ATC) influence customer complaint behaviour (Kim & Chen, 2010: 97).

The purpose of this study is to determine if customers' experiences in a restaurant setting could be considered an influence on their perceptions and ATC. The influence of past experience was chosen for a number of reasons. Firstly, Velázquez *et al.* (2010: 540) and Thøgersen *et al.* (2009: 772) mention that customers' ATC is more predictive of their behaviour among more experienced than inexperienced customers. Secondly, customers' past experience may influence the likelihood that they will complain (Hoyer & MacInnis, 2010: 287). Thirdly, it is believed that the frequency of restaurant patrons' past visits could be a key factor in influencing their perceptions (Ruy & Han, 2011: 604). Finally, customer satisfaction could be directly influenced by customers' past experiences with a service provider (Kim, Wang & Mattila, 2010: 980).

This study will accordingly investigate the perceptions and ATC of regular and occasional restaurant patrons as insights gained from these groups could be used to more effectively target these segments with marketing strategies (Ryu & Han, 2011: 600) – and especially repeat customers due to their repeat patronage and profitability (Mattila, 2004: 134-136).

Based on the problem statement and literature review the primary objective set for this study was to determine regular and occasional restaurant patrons' perceptions of various services in South Africa as well as their attitudes towards complaining.

The following secondary objectives were therefore formulated for this study:

- Investigate the restaurant preferences of restaurant patrons.
- Determine and compare regular and occasional restaurant patrons' service perceptions.
- Determine and compare the attitude of regular and occasional restaurant patrons towards complaining.

The following null hypotheses are formulated for the study:

*H01: Regular and occasional restaurant patrons do not have significantly different service perceptions.*

In order to refine this hypothesis, the following hypotheses are formulated:

*H01a: Regular and occasional restaurant patrons do not have significantly different perceptions regarding service in general in South Africa.*

*H01b: Regular and occasional restaurant patrons do not have significantly different perceptions regarding services in the South African restaurant industry.*

*H01c: Regular and occasional restaurant patrons do not have significantly different perceptions regarding services at the restaurant they patronise most often.*

*H02: Regular and occasional restaurant patrons do not have significantly different attitudes towards complaining.*

## RESEARCH METHODOLOGY

The population of the study included individuals in Gauteng who have eaten or have taken out a meal at a restaurant in the past six months of the survey being conducted. These restaurants included franchised fast-food and sit-down as well as independently owned fast-food and sit-down restaurants anywhere in the Gauteng province of South Africa. The researchers utilised two-stage non-probability sampling to collect data from 320 respondents. Firstly, quotas were established based upon gender and race. The next step was to select those who qualify on the basis of convenience. Trained fieldworkers were responsible for the selection of respondents and they subsequently had to fill these quotas.

Once selected, respondents were approached by the fieldworkers outside shopping malls with self-administered questionnaires that respondents, who were willing to participate, had to complete and return to the fieldworker. Fieldworkers were monitored to ensure they follow the sample plan as described above.

The self-administered questionnaire designed for the purposes of this paper contained a screening question to ensure that only respondents who qualify took part in the study. The first questions in the questionnaire focused on uncovering the demographic characteristics of the respondents. The questionnaire furthermore requested information related to respondents' restaurant preferences, such as the aspects they consider important when choosing a restaurant, the types of restaurants they patronise most often and the regularity with which they patronise these restaurants.

The questionnaire furthermore included a number of statements measuring respondents' service perceptions. This was followed by a measurement set measuring respondents' general ATC (eight statements). This measurement set was taken from the work of Yuksel *et al.* (2006: 16). Four of these statements were positively phrased, while the remaining four were negatively phrased.

Table 1 provides an exposition of the statements as they appeared in the questionnaire. Respondents had to indicate their level of agreement with statements related to services as well as those related to their ATC. A five-point unlabelled Likert-type scale was used to



measure respondents' level of agreement, where 1 represents „strongly disagree“ and 5 represents „strongly agree“.

**Table 1: Statements used to measure ‘attitude towards complaining’**

Complaining is a customer's right, not an obligation
I always complain when I am dissatisfied because I feel it is my duty
Complaining is not easy, but it should be done when „things“ are not right
I always feel better once I voice my dissatisfactions through a complaint
For me, complaining usually makes me more frustrated*
Complaining about anything is distasteful to me*
People who have little else to do are the ones that complain the most*
I am embarrassed to complain no matter how bad the product/service was*

\* Negatively phrased statement

After the questionnaire was compiled, it was pre-tested among those who fit the profile of the typical respondent. The feedback from these respondents was used to refine the questionnaire. Subsequently, the questionnaire was fielded under the study population.

Once the completed questionnaires were returned by fieldworkers, they were checked for completeness, accuracy and any inconsistencies were identified. Poor quality questionnaires were discarded, while pair-wise deletion was utilised where a limited number of missing values appeared in a questionnaire. The Statistical Package for Social Sciences (SPSS Version 17) was used to capture and analyse the data. The captured data was cleaned and prepared for analysis.

The first step in the data analysis process involved the examination of the normality of the distribution of the results of each of the statements measuring perceptions towards service (three statements), as well as the results of each the statements measuring attitude towards complaining (eight statements). Once normality of distribution was confirmed, the next step involved an investigation into the reliability of the measurement set used to measure ATC, since an overall mean score for the eight statements measuring ATC may only be calculated if the measurement set can be considered reliable. In this instance, the reliability statistic calculated was the Cronbach's alpha value.

The next part of the data analysis involved the calculation of frequencies (percentages) to describe the demographics of the respondents taking part in the study. This was followed by

determining actual counts, rankings and, in one instance, the valid percentages in order to describe the restaurant preferences of respondents. For the individual statements on service, means for each statement were calculated. For the statements included in the measurement set measuring ATC, means were also calculated and in addition the overall mean scores for the measurement set were also calculated. The data obtained for the four negatively phrased statements contained in the measurement set were reverse coded and positively phrased to allow for data analysis and comparison (see Table 5).

For the purpose of hypothesis testing, the researchers relied on a confidence level of 95% and a subsequent p-value of 0.05. A p-value of equal to or less than 0.05 in this instance is an indication that a significant difference exists between the means of the groups being compared.

In order to conduct hypotheses testing, the multiple response categories presented to respondents to measure the regularity with which they patronise the restaurant they most often visit were collapsed into two categories, namely occasional restaurant patrons (those patronising the restaurant once a month or less) and regular restaurant patrons (those who patronise the restaurant more often than once a month).

Parametric tests were furthermore used to test the hypotheses. Parametric tests can be used when the sample size is adequate (equal or larger than 30 respondents) and if normality of distribution can be confirmed (Eiselen, Uys & Potgieter, 2007:79). Since the means of two groups (occasional and regular restaurant patrons) were compared to test all the hypotheses set for this paper, independent sample t-tests were conducted. Paired sample t-tests were also conducted to determine significant differences between the means for different statements (statements on service perceptions). The following section presents the results of the data analysis.

## **RESULTS**

The results section firstly reports the findings regarding the assessment of the distribution of the results for each of the statements subjected to hypothesis testing and the reliability of the measurement set used. This is followed by an exposition of the demographic profile of

respondents, their restaurant preferences, the results related to their service perceptions and finally their ATC. The results of the hypothesis testing are also presented.

### **Distribution of results**

West, Finch and Curran (1995: 75) propound that the distribution of the results of a variable (individual statement in this case) may be considered normal if it falls within certain limits with regard to the skewness and kurtosis of the distribution. A skewness of the distribution of less than 2.00 and a kurtosis of the distribution of less than 7.00 are considered normal (West *et al.*, 1995: 75). In assessing the three statements measuring service and the eight statements included in the measurement set measuring attitude towards complaining, it was found that all the statements fall within these limits and can therefore be considered normal for the purpose of parametric testing.

### **Validity**

As indicated earlier, the measurement set measuring attitude towards complaining was taken from the work of Yuksel *et al.* (2006: 16). These authors reported the questionnaire to be valid since all statements included in the different measurement sets exhibit significant paths that link the constructs and that the resultant residuals are low.

### **Reliability**

When the Cronbach's alpha value is calculated to assess the reliability of a measurement set, Hair, Anderson, Tatham and Black (1998: 118) profess that a value of 1 indicates the highest possible level of reliability, while a value of 0.70 and higher is considered reliable. The Cronbach's alpha value calculated for the eight statements measuring ATC is 0.757. This is higher than 0.7 and can therefore be considered reliable.

### **Demographic profile of respondents**

From Table 2 it can be seen that similar percentages of female (51.7%) and male (48.3%) respondents participated in the study. The majority of respondents were between 20 and 29 years of age (42.0%), followed by those between 30 and 39 years of age (24.1%). Most of the respondents were English speaking (47.8%), followed by Afrikaans-speaking patrons (23.4%), while 25.3% either spoke a Sotho or a Nguni language. Most respondents who took part in the study had a tertiary education (62.2%) and 60.4% were employed full time.

**Table 2: Demographic profile of respondents**

<b>Gender</b>	<b>Percentage</b>
Male	48.3
Female	51.7
<b>Age</b>	<b>Percentage</b>
Younger than 20	8.2
20-29	42.0
30-39	24.1
40-49	15.4
50-59	8.8
60-69	1.3
70 or older	0.3
<b>Home language</b>	<b>Percentage</b>
Afrikaans	23.4
English	47.8
Nguni (isiZulu, isiXhosa, Siswati, isiNdebele)	11.9
Sotho (Sepedi, Sesotho, Setswana)	13.4
Tshivenda/Xitsonga	2.2
Other	1.3
<b>Education</b>	<b>Percentage</b>
Primary school completed	0.6
Some high school	4.4
Matric (Grade 12)	29.9
Technical diploma or degree	27.0
University degree	35.2
Other	2.8
<b>Employment status</b>	<b>Percentage</b>
Full time	60.4
Part time	10.8
Self-employed	8.2
Student	13.6
Housewife or househusband	3.5
Retired	0.6
Unemployed	2.8

### **Respondents' restaurant preferences**

With regard to respondents' restaurant preferences, they first had to indicate the aspects they consider important when choosing a restaurant. Respondents could select more than one aspect. Table 3 below reports the count and ranking in terms of importance of each aspect. The aspect most respondents selected relates to the type of food offered by the restaurant (count = 227). This is closely followed by the quality of food (count = 226), the service provided by the restaurant (count = 217) and the type of restaurant (count = 212). Least important to respondents were the availability of entertainment for children (count = 62) and whether the restaurant is well known (count = 69).

The type of restaurants respondents mostly patronise were franchised fast-food restaurants (count = 184), followed by franchised sit-down restaurants or coffee shops (count = 181). The type of restaurants least patronised were independently owned sit-down restaurants (count = 44).

With regard to the regularity with which respondents visit the restaurant they chose above, it was found that the majority of respondents (46.9%) patronise this restaurant on a weekly basis, followed by 44.4% patronising the restaurant on a monthly basis.

**Table 3: Respondents' restaurant preferences**

<b>The aspects restaurant patrons consider when choosing a restaurant</b>	<b>Count</b>	<b>Ranking</b>
Type of food offered (e.g. seafood, steaks and hamburgers)	227	1 <sup>st</sup>
Quality of the food	226	2 <sup>nd</sup>
Service	217	3 <sup>rd</sup>
Type of restaurant (e.g. fast food, sit-down or family restaurant)	212	4 <sup>th</sup>
Price	187	5 <sup>th</sup>
Atmosphere	172	6 <sup>th</sup>
Variety offered	170	7 <sup>th</sup>
Location (e.g. in a mall or in a suburb)	152	8 <sup>th</sup>
Reputation of the restaurant	150	9 <sup>th</sup>
Specials offered	89	10 <sup>th</sup>
Whether the restaurant is well known	69	11 <sup>th</sup>
Entertainment for children	62	12 <sup>th</sup>
<b>The type of restaurant patronised</b>	<b>Count</b>	<b>Ranking</b>
A franchised fast-food restaurant	184	1 <sup>st</sup>
A franchised sit-down restaurant or coffee shop	181	2 <sup>nd</sup>
Independently owned fast-food restaurant	69	3 <sup>rd</sup>
Independently owned sit-down restaurant	44	4 <sup>th</sup>
<b>Regularity with which the restaurant is patronised</b>	<b>Count</b>	<b>Valid percentage</b>
Daily	12	3.8
Weekly	150	46.9
Monthly	142	44.4
Twice a year	13	4.1
Less than once a year	3	0.9

### **Perceptions of service**

Respondents had to indicate their level of agreement with three statements regarding their perceptions of service in general in South Africa, in the restaurant industry in South Africa and at the restaurant they visit most often. When looking at the respondents overall, the paired

sample t-tests revealed that respondents rate the services offered by the restaurant they most often go to (mean = 3.83) significantly higher than the service of the restaurant industry in South Africa (mean = 3.19; p-value = 0.000) and service in general in South Africa (mean = 2.78; p-value = 0.000). There is also a significant difference between how respondents rate services in general (mean = 2.78) and services in the restaurant industry in South Africa (mean = 3.19; p-value = 0.000). The finding that respondents rate the service offered by the restaurant they most often go to significantly higher is in line with a previous finding in this paper that service is an important aspect (rated the third most important aspect) for respondents when selecting a restaurant.

Table 4 reflects the means for each of the three statements for the two groups under consideration, namely regular and occasional restaurant patrons.

**Table 4: Means for individual service-related statements**

Statement	Overall	Regular restaurant patrons	Occasional restaurant patrons	p-value
Service in general in South Africa	2.78	2.79	2.78	0.940
Services in the restaurant industry in South Africa	3.19	3.29	3.09	0.027*
The service offered by the restaurant you go to most often	3.83	3.88	3.77	0.158

The following findings can be reported with regard to H01:

- It is evident that regular (mean = 2.79) and occasional restaurant patrons (mean = 2.78; p-value = 0.940) do not have significantly different perceptions regarding service in general in South Africa. *H01a* should therefore be supported.
- Regular (mean = 3.29) and occasional restaurant patrons (mean = 3.09; p-value = 0.027) have, however, significantly different perceptions regarding service in the restaurant industry in South Africa. The perceptions of regular restaurant patrons are significantly more positive towards service in restaurants in South Africa than occasional restaurant patrons. *H01b* should therefore not be supported.
- Results furthermore indicate that regular (mean = 3.88) and occasional restaurant patrons (mean = 3.77; p-value = 0.158) do not have significantly different perceptions regarding service at the restaurant they patronise most often. *H01c* should therefore be supported.

In summary, regarding H01, it can be concluded that the hypothesis can be partially supported since regular restaurant patrons rate services in the restaurant industry in South Africa significantly better than occasional patrons do.

### **Attitude towards complaining**

Respondents furthermore had to indicate their level of agreement with statements measuring their ATC. Table 5 indicates that the statements with which all respondents agreed with the most were „Complaining is a customer’s right, not an obligation“ (mean = 4.15) and „Complaining is not easy, but it should be done when „things“ are not right“ (mean = 4.14), followed by „I am not embarrassed to complain no matter how bad the product/service was“ (mean =3.81). The statements all respondents agreed with least were „For me, complaining usually makes me less frustrated“ (mean = 3.30) and „I do not consider complaining about something distasteful“ (mean = 3.30).

**Table 5: Means for the attitude towards complaining measurement set**

<b>Statements</b>	<b>Overall</b>	<b>Regular restaurant patrons</b>	<b>Occasional restaurant patrons</b>	<b>p-value</b>
Complaining is a customer’s right, not an obligation	4.15	4.22	4.07	0.167
I always complain when I am dissatisfied because I feel it is my duty	3.40	3.49	3.30	0.164
Complaining is not easy, but it should be done when „things“ are not right	4.14	4.16	4.12	0.735
I always feel better once I voice my dissatisfactions through a complaint	3.31	3.46	3.17	0.034*
For me, complaining usually makes me less frustrated	3.30	3.42	3.17	0.101
I do not consider complaining about something distasteful	3.30	3.49	3.10	0.014*
I do not believe that people who have little else to do are the ones that complain the most	3.58	3.72	3.43	0.069
I am not embarrassed to complain no matter how bad the product/service was	3.81	3.91	3.72	0.183
<b>Overall attitude towards complaining</b>	<b>3.63</b>	<b>3.75</b>	<b>3.51</b>	<b>0.005*</b>

It should be noted from Table 5 that regular restaurant patrons have a significantly more positive attitude than occasional restaurant patrons for only two individual statements, namely „I always feel better once I voice my dissatisfactions through a complaint“ and „I do not consider complaining about something distasteful“.

With regard to H<sub>02</sub>, it was found that regular and occasional restaurant patrons have significantly different overall ATC. Regular restaurant patrons (mean = 3.75) have a significantly more positive ATC than occasional restaurant patrons (mean = 3.51; p-value = 0.005). H<sub>02</sub> could therefore not be supported.

## **CONCLUSIONS AND MANAGERIAL IMPLICATIONS**

From the literature review it could be deduced that it is in the best interest of restaurants that customers who experience a service failure complain directly to restaurant staff or management as by doing so restaurants are afforded a second chance to turn customer dissatisfaction into satisfaction and trust and confidence in the restaurant (Kim & Chen, 2010: 97). By not encouraging customers to complain directly to restaurateurs, customers may opt to rather engage in negative word-of-mouth communication or simply defect to a competitor (McQuilken & Robertson, 2011: 1; Yuksel *et al.*, 2006: 11; Ndubisi & Ling, 2005: 67). One specific aspect relating to customer complaint behaviour that could provide marketers with useful insights into why customers do or do not complain, is that of customers“ ATC as ATC is an important indicator of whether, and if indeed so, in which manner customers will complain (Jin, 2010: 97). It is furthermore argued in literature that customers“ past experiences may influence the likelihood that they will complain (Hoyer & MacInnis, 2010: 287) and that ATC is more predictive of the behaviour among more experienced than inexperienced customers (Velázquez *et al.*, 2010: 540; Thøgersen *et al.*, 2009: 772). The purpose of this study was therefore to explore customer complaint behaviour by specifically studying regular and occasional restaurant patrons“ perceptions of service as well as their attitudes towards complaining.

Results from this study showed that respondents rate the services offered by the restaurant they most often go to significantly higher than the services of the restaurant industry in South Africa and service in general in South Africa. There was also a significant difference between how respondents rate services in general and services in the restaurant industry in South



Africa. Concerning the first hypothesis formulated for the study, it was found that regular restaurant patrons had significantly different (significantly more positive) perceptions regarding service in the restaurant industry in South Africa than occasional restaurant patrons. This finding partly supports that of Ruy and Han (2011: 604), who found that the frequency of restaurant patrons' past visits could be a key factor in influencing their perceptions. Despite this finding, hypothesis 1 could only be supported partially since regular restaurant patrons only rate services in the restaurant industry in South Africa significantly better than occasional patrons do.

A further conclusion made from this study was that regular restaurant patrons have a significantly more positive attitude than occasional restaurant patrons for two individual statements pertaining to ATC, namely „I always feel better once I voice my dissatisfactions through a complaint“ and „I do not consider complaining about something distasteful“. With regard to hypotheses 2, it was found that regular and occasional restaurant patrons have significantly different overall ATC. Regular restaurant patrons have a significantly more positive ATC than occasional restaurant patrons do. This finding supports those by Velázquez *et al.* (2010: 540), Hoyer and MacInnis (2010: 287) and Thøgersen *et al.* (2009: 772), who suggest that customers' past experiences could influence the likelihood that they will complain and their ATC.

The findings from this study have a number of implications for restaurateurs. Firstly, it should be encouraging to restaurants to know that respondents rated the services offered by the restaurant they most often visit as better than services in general as well as services in the restaurant industry in South Africa. Restaurants should therefore continue to offer quality service to their customers in an effort to retain their customers – and especially regular customers. Secondly, restaurants should offer friendly and convenient complaint procedures should customers not be completely satisfied with the services offered. Thirdly, as regular customers have a more positive ATC, restaurants should continue to encourage these customers to complain directly to restaurateurs. By doing so, restaurants will have a second opportunity to ensure customer satisfaction. Fourthly, as occasional customers do not have the same positive ATC than regular customers do, restaurants should make a special effort to encourage these customers to express their dissatisfaction by complaining to restaurateurs. By doing so, restaurants could possibly convert occasional customers (who previously may have defected to competitors due to dissatisfaction) to regular customers. Fifthly, restaurants should

try to change customers' perceptions towards ATC as ATC could influence if, and the manner in which, customers complain (Jin, 2010: 97). Changing customers' ATC is, however, not easily achieved over the short term but should rather be seen as a long-term objective (Yuksel *et al.*, 2006: 22). Restaurants can attempt to create a positive ATC by creating friendly channels where customers can complain. Employees should accordingly be trained to encourage customers to voice their dissatisfaction with their dining experience directly to restaurateurs. Employees should furthermore be trained to deal with customer complaints quickly and to provide an appropriate response to all complaints received (Kim & Chen, 2010: 108). Finally, by noting customers' ATC, restaurants can draft marketing strategies directed at customer groups with different ATC (Ryu & Han, 2011: 600).

## **SUMMARY**

The primary objective of this paper was to determine regular and occasional restaurant patrons' service perceptions and attitudes towards complaining. Findings indicate that respondents rate the services offered by the restaurant they most often frequent higher than other restaurants, as well as general services in South Africa. In addition, regular restaurant patrons were found to have a significantly more positive attitude towards complaining than occasional restaurant patrons do.

Based on the findings of the study, it is suggested that restaurants continue to offer quality service to their patrons in an effort to retain customers. Restaurants should furthermore offer friendly and convenient complaint procedures and should also continue to encourage regular customers to complain. In addition, restaurants should make a special effort to encourage occasional customers to express their dissatisfaction, and finally restaurants should try to change customers' perceptions towards ATC in general.

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**SERVICE QUALITY A DEFINING CHARACTERISTIC IN SERVICE  
DELIVERY –THE CASE OF THE UNIVERSITY OF KWAZULU-  
NATAL**

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**Service quality, GAPS model, SERVQUAL instrument, competitive advantage**

# **SERVICE QUALITY A DEFINING CHARACTERISTIC IN SERVICE DELIVERY – THE CASE OF THE UNIVERSITY OF KWAZULU-NATAL**

## **Abstract**

As the global economy battles to survive the credit crunch, universities too, have been under pressure to attract students. The only way forward in these difficult economic times has been for universities to become more market driven by positioning themselves using ‘quality of their services’ as a major competitive advantage. In this paper the research has conducted a study on staff at the University of KwaZulu-Natal identifying their perceptions on service quality. Since academic and support staff are primary deliverers of the different aspect of the tertiary education service provided to the students, it is therefore important to examine their views on ‘quality’.

## **Introduction**

As service marketing has evolved over time, more research has been conducted on quality and how it impacts on the customer. Since tertiary education forms part of service marketing it is important to identify its quality variables and understand how it affects the students and staff within the university environment. Batesman (1992:494) argues that service quality offers a way of achieving success among competing services. The other debate surrounding quality is that the university as an organization needs to identify quality within its strategy. In order for the University of KwaZulu-Natal (UKZN) to be recognised as an institution of learning with high quality of excellence it needs to have an organization culture that embraces high service quality at all levels within the institution. In order for both academic and support staff to deliver consistent satisfying experiences, excellent quality should form the building block to facilitate in providing these satisfying experiences to students. To deliver quality services and enhance the overall learning experience within the tertiary environment, management and their staff within the university need to understand the students and their perceptions and related expectations for the service being delivered. Here customer demographics, their behaviour patterns and understanding how to communicate the service experience to them effectively needs to be recognised by staff as they are the ones who interact with students during the delivery process of the service.



However this is not as simple as it seems as students are different in their perceptions and thus many times than not require individual attention by staff members. Also communicating to a diversity of students from different cultures, races and ethnicities adds to the complexity.

Since this study aims to highlight how staff view service quality within the University of KwaZulu-Natal, by gaining insights into staff perception of quality we can compare academic and support staff's perceptions and thereafter identify any necessary gaps in the way they view service quality.

### **Problem Investigated**

High levels of service quality within the University of KwaZulu- Natal contribute to making this institution marketable, desirable and attractive to perspective undergraduate and post-graduate learners.

### **Research Objectives**

1. To assess the University of KwaZulu-Natal's service quality and its ability to make the service offering marketable, desirable and attractive to its students.
2. To identify models of service quality that may apply to tertiary institutions.
3. To assess the SERVQUAL model and identify staff's quality gaps in the University of KwaZulu-Natal's service delivery.

### **Hypothesis**

There is statistically significant difference in the service quality Gaps scores for Academic and Support or Admin staff.

### **Literature review**

In the literature review various definition and theories on service quality are put forward. The concept of quality therefore has different meanings and this creates the debate surrounding the area of 'quality' research. Lovelock *et al.* (2007:411) comments that the word quality means different things to different people.

When we look at quality dimensions within the tertiary institution, the following come to mind:

- Quality in terms of well skilled academic staff.
- Quality of programme offering and its value and relevance to the labour market.
- Quality in terms of good facilities, equipment and lecture and recreational venues.
- Quality in terms of good administration staff who are efficient in admin and student affairs.
- Quality in terms of safety of the students at campus.
- Quality in terms of research output.
- Quality in terms of scholarships and funding facilities available to students within the Campus.
- Ranking of the university within the country.
- Global recognition of the university and the universities commitment to international student enrolments.

All the above are facets that embody the quality of the service offering within the University of KwaZulu-Natal. It can be argued that if looked at closely, quality should permeate through the whole service experience the student has during his or her time at campus.

When looking at quality within the tertiary institution, Harvey & Green (93:3) came up with interesting concepts and went on to say that: 'quality can be viewed as exceptional, as perfection (or consistency), as fitness for purpose, as value for money and as transformative.' The researcher is in agreement with the above ideology. In the case of UKZN if students perceived our service quality in terms of exceptional service offerings, embodying academic excellence, high standards within its academic programmes and research output, a well ranked academic institution with a reputable image, then the quality concept of the way students view the institution will be enhanced. However, the staff are the people who can enhance the service experience for students by providing high levels of quality service.

The researcher is in agreement with Bateman that service quality is more difficult to evaluate than goods quality. The actual fact that a good can be physically seen, tasted or touched makes it easier for the service user to ascertain its quality. On the other hand if we take a student at university, the student has to experience each aspect of the tertiary service

experience before he or she can conclude on the service. The intangible nature of service makes it difficult for students to immediately conclude on whether the service was of a high quality or not.

Lewis and Blooms (1983:99-107) argues that service quality is a measure of how well the service level delivered matches customer expectations. Delivering quality service means conforming to customer expectations on a consistent basis.

According to Kurtz *et al.* (1998:110) to evaluate the quality of services customers will compare the service they received with the service they expected. If service quality were to be calculated mathematically, the formula would be  $P-E$ , with P being the customers perceived level of service received and E being consumer expectations prior to the service encounter. A negative number would indicate that expectations were not met. A zero would indicate consumer expectations were met. A positive number would indicate consumer expectations were exceeded.

Another important debate put forward by theorists is the link between quality and customer satisfaction. According to Fisk *et al.* (2004:153), quality creates a chain reaction with regard to loyalty and customer inclination to establish enduring relationships with service providers. It can be said that the greater the level of customer satisfaction, the stronger the link between the customer and the provider. In the case of the University of KwaZulu-Natal, if it were to provide high quality services to its loyal customers (that being the students that stay on to complete their degrees at the university or who go on to do post-grad degrees) then the service delivery link between customer and service organization is established. If the staff at the University of KwaZulu-Natal understands its loyal customers, this thus puts them in a favourable position to provide high quality services thus strengthening the service delivery link between the loyal student population and the university.

Zeithmal *et al.* (2009:105) argues that customer satisfaction is influenced by specific product or service features, perceptions of product and service quality, and price. From the above argument put forward by Zeithmal and her colleagues it can be clearly seen that perceptions on service quality does have a direct bearing on the end result of customer satisfaction.

Kasper (2006:182-182) adds to the above debate by stating that quality in simple terms refers to some attribute of what is offered, provided, produced whereas satisfaction or dissatisfaction

refers to a customer's reaction to that offer. In this sense they are separate; quality is something that an organization is responsible for, whereas satisfaction is in the customer's domain, it is an experience. However, these two concepts are clearly related in that we might use customer response (satisfaction or dissatisfaction) as a means of assessing whether quality has been delivered.

Hoffman and Bateman (2006:333), argues that customer satisfaction and service quality are intertwined. Some believe that customer satisfaction leads to perceived service quality, while others believe that service quality leads to customer satisfaction. For the purpose of this study service quality leads to customer satisfaction, is the standpoint taken.

According to Brink *et al.* (2004: 59) customers perceive services in terms of quality of services provided and the satisfaction attained. These two concepts, service quality and customer satisfaction, are the focus of attention of organizations because they want to quantify (measure) it. The reason for the focus on quality of service and customer satisfaction is the belief that organizations can differentiate themselves by means of providing better service quality and overall customer satisfaction.

The link between quality and customer satisfaction has been discussed in detail above, the next step in the discussion is to now identify and discuss models of service quality.

There are various models of service quality. However, for the purposes of this study only the SERVQUAL and Gaps model will be discussed in detail.

Valerie Zeithaml and her colleagues developed the SERVQUAL model to measure customer satisfaction with various aspects of service quality. According to Lovelock *et al.* (2007: 420), in its basic form the SERVQUAL model contains a scale of 22 perception items and a series of expectation items, reflecting the five dimensions of service quality namely tangibles; reliability; responsiveness; assurance and empathy. According to Parasuraman, Zeithaml & Berry (1985:41-45), Tangibles are the physical facilities, equipment and appearance of staff. Reliability refers to the firm's ability to deliver a promised service dependably and accurately. Responsiveness refers to the service provider's willingness to help customers and provide prompt service. Assurance refers to the knowledge and courtesy of employees and their ability to inspire trust and confidence. Empathy is demonstrated by giving caring, individualised attention to customers.

Nyeck, Morales, Ladhari and Pons (2002:101-106) argue that the SERVQUAL tool remains the most complete attempt to conceptualize and measure quality. The main benefit to the SERVQUAL measuring tool is the ability of researchers to examine numerous service industries such as healthcare, banking, financial and education. They also commented that the problem was not with the SERVQUAL measure but with the manner in which the researchers used the tool.

According to research done by Solomon, (1993:10-15), he suggested that total quality within tertiary institutions is much wider and deeper than a quality assurance system. It involves a change of mindset. Soutar (1996:75) indicates that there would appear to be merit in evaluating the performance of tertiary education institutions with a service marketing instrument such as SERVQUAL. Hittman (1993:77-80) suggests further that the SERVQUAL model would seem rational to use as it not only evaluates the teaching component of a tertiary institution, but also includes aspects of the total service environment as experienced by the student.

Zeithmal, Berry and Parasuraman developed the GAPS model that identified four potential gaps within the service organization. According to Metters(2006: 185) Parasuramen and colleges (1985) conducted studies in several industry sectors to develop and refine SERVQUAL, a multi-item instrument to quantify customers' global (as apposed to transaction- specific) assessment of a company's service quality. Their model is commonly known as the GAPS model. Their scale involved expectations –perceptions gaps scores along five dimensions: reliability, responsiveness, assurance, empathy and tangibles. When Zeithaml, Parasuraman, and Berry asked more than 1,900 customers of five nationally known companies to allocate 100 points across the five service quality dimensions they reported that their most important quality dimension was reliability, this area seems to be where many service companies fail. The SERVQUAL model conceptualizes service quality on the basis of the differences between customers' expectations with respect to the five dimensions and their perceptions of what was actually delivered. When a difference exists, it is characterized as a 'gap'.

Kasper *et al.* (2006: 192) discusses in detail the GAPS model as follows:

GAP1: consumer expectation- management perception gap. In formulating its service delivery policy management does not correctly perceive or interpret consumer expectations.

GAP2: management perceptions- service quality specifications gap. Management does not correctly translate the service policy into rules and guidelines for employees.

GAP3: service quality specifications- service delivery gap. Employees do not correctly translate rules and guidelines into action

GAP4: service delivery- external communications gap. External communications promises made to customers-do not match the actual service delivery.

According to Bennett (2002:83) the GAPS model emphasis that managers must understand what customers expect from the service experience. They must also understand the barriers that prevent the firm meeting the needs of its customers.

The researcher is in agreement with Bennett *et al.* as within tertiary institutions if one were to identify the gaps in the service delivery process one can then draw valuable insight into improving overall service quality within the tertiary institution environment.

## **Research Methodology**

To conduct the study the following research methods were employed by the researcher. Both secondary and primary research methods were used to collect data for the study.

*Literature review:* This consists of a literature study of the most recent texts, papers, journals articles, University of KwaZulu-Natal documents (Faculty Brochures, Strategic Plan Documents, Merger Report 2007, Annual report 2004-2007) and Government Acts.

*Qualitative Research* was used in the study. A survey was designed with the purpose of collecting information from staff on their perceptions on service quality within the University of KwaZulu-Natal. A self administered questionnaire was administered to staff within all five campuses of the University of KwaZulu-Natal, namely, Westville campus, Nelson Mandela Medical School, Howard college, Pietermaritzburg campus and Edgewood college.

A 5 Point Likert scale was used in the *questionnaire design*. Hair *et al.* (2008:155) argues that the Likert scale is best for research design that is used in self-administered surveys, personal interviews or online surveys. After taking into consideration the various arguments on closed and open-ended questions, when designing the questionnaire for the study, the researcher opted to use Closed-ended questions.

The questionnaire used in the study was also adapted to the quality dimensions peculiar to tertiary education environment. The questionnaire was adapted to the SERVQUAL instrument developed by Parasuraman *et al.* The five quality dimensions formulated by Parasuraman, Zeithaml and Berry were adapted to the study.

For this study, the researcher identified the *population* as all staff at the University of KwaZulu-Natal. This included both academic and non-academic staff totalling 4170 at the five campuses. (UKZN, Annual Report: 2007.) *Convenience sampling technique* was also employed by the researcher. The researcher had the freedom to choose staff that were willing to participate in the survey.

The *sample size* for the study was arrived at using, Krejcie and Morgans tables. There were 354 academic and non-academic staff from Westville, Howard, Edgewood, the Medical School and Pietermaritzburg campus that made up the sample. The figure 354 was arrived at using Krejcie and Morgan's tables (Cavana *et al.*, 2002:278). The researcher concurred that the response rate for the survey on staff was good, it being 73%.

### **Limitations of the study**

Due to time and budgetary constraints the study experienced the following confinements:

1. The survey was conducted at University of KwaZulu-Natal's campuses only.
2. The respondents complained that they were always too busy or not interested in being part of the survey.
3. The student strikes in 2010 affected staff work and made collecting the questionnaires difficult.

## Results/Findings

The Gap Scores (i.e. the difference between the Perceptions and Expectations scores) revealed the following:

**Table 1: GAPs Scores for Staff**

Group		Mean	N	Std. Deviation
Staff	Tangibles GAP score (P-E)	-.8309	257	.88837
	Reliability GAP score (P-E)	-1.0249	257	1.17420
	Responsiveness GAP score (P-E)	-.9377	257	1.01407
	Empathy GAP score (P-E)	-.6451	257	.95467
	Assurance GAP score (P-E)	-.7481	257	.85331
	Overall GAP score (P-E)	-.8374	257	.84173

Since all the Gap scores are negative, the results revealed that staff were very dissatisfied with the services provided at UKZN. The highest mean Gap scores rated by staff was Empathy (-0.6451), followed by Assurance (-0.7481), Tangibles (-0.8309), Responsiveness (-0.9377), and Reliability (-1.0249).

### *Inferential statistics*

The following hypothesis was tested.

Hypothesis 1: There is statistically significant difference in the service quality Gaps scores for Academic and Support staff.

**Table 2: Mann-Whitney Test Statistics between Academic & Support Staff**

	Mann-Whitney U	Z	P
Tangibles GAP score (P-E)	7495.500	-.101	.920
Reliability GAP score (P-E)	7138.000	-.731	.465
Responsiveness GAP score (P-E)	7445.000	-.190	.849
Empathy GAP score (P-E)	7157.000	-.698	.485
Assurance GAP score (P-E)	7045.000	-.892	.372
Overall GAP score (P-E)	7530.500	-.039	.969

The above hypothesis is rejected as the table above reflects that there is no difference in the GAP scores between Support staff ( $p > 0.05$ ). From the results of the survey it seems that academic and support staff are on par with one another on the way they view quality



within UKZN. However it is important to note that on overall both academic and support staff are dissatisfied with the quality of services at UKZN.

## **Conclusions**

Universities vie for the same top students both nationally and internationally each year. In order for a student to choose that university, the university needs to set itself apart from all the others. It can do this quiet strategically by providing top quality services. When marketing its programs the University of KwaZulu-Natal should place service quality as an integral part of its service offering made to its students. If taken a step further, excellent service quality could be the University of KwaZulu-Natal's competitive advantage as it sets it apart from other universities and makes it more distinguished and highly in demand by the students. The staff at the University of KwaZulu-Natal should also be on par with the university's service marketing strategy, by providing high quality services to the students at all levels of the service delivery process. Kasper *et al.* (2006: 176) indicates that one of the potential benefits from a high quality service is that it creates a competitive advantage for the organization by insulating customers from competitors. If the service delivered is perceived to be equal or higher quality than that of competitors then there is no motivation for customers to defect regardless of poaching tactics.

However the results of the survey indicate that staff have great dissatisfaction with the services provided UKZN. The highest mean gap score indicated by staff was empathy. Staff believed that making students feel important by responding to their needs and understanding their concerns is very important and more attention needs to be paid to this area in service delivery.

## **Implications for Management/Recommendations**

From this study, the implications can be clearly outlined, that being the importance of high levels of service quality, that need to permeate within all levels of the University of KwaZulu-Natal structures. Since service quality can be a major determinant in attracting students then management have to take the concept of service quality and apply these dimensions to all levels of the service delivery processes. This is a complicated task as staff at the various levels within the University of KwaZulu -Natal are involved in the delivery process. From

processing new student applications, to registration, orientation, teaching, library services, residential services, etc staff within all these service structures need to understand what is required of them in the delivery of high levels of quality services.

To improve service quality staff need to first understand what is required from them in terms of quality aspirations. Proper guidelines on quality need to be drawn up by management and sent to all levels within the university. Simple things like putting the students first, being professional in the service encounter, understanding students queries and dealing with their complaints in a amicable manner should be included in staff's job descriptions.

The five dimensions of quality must be included in staff training on improving service quality across all levels of university structures.

Some recommendations to management are as follows:

***For Tangibles management should:***

- Where possible campus buildings, interior, exterior, furniture, equipment, colours, lecture venues, computer lanes and library facilities should be refurbished or replaced if very outdated or damaged.
- When publishing UKZN brochures and other documents they should be trendy and appealing to our students.

***For ensuring Reliability of the service at the university management should include:***

- Understand student needs and wants through conducting up to date market research.
- Develop systems and procedures that standardise service production to ensure that the service is delivered as reliably and consistently as possible. This could be implemented in the support and administration service sector of the university.
- The university should have up to date information on the degrees and curriculum at hand.
- Work with government and other trade agencies to understand the needs in the economy and structure their degrees and for these jobs in the South African and global economy respectively.

***For increasing Responsiveness within the five campuses management should:***

- Individualise or customise the service they are offering to the student as much as possible. This is not possible for academic services, but support and administrative services can adapt this paradigm.
- Determine how the service process and outcome are viewed by the students.
- Training staff well, so that they can respond when necessary.
- Developing procedure manuals to help staff respond to student questions, complaints and requests.
- Ensure that students do not have to wait too long for assistance or to receive the service.

***Strategies useful for Assuring students and reducing the perceived risk associated with the purchase and consumption of services at the University of KwaZulu-Natal should include:***

- Create trust and confidence through the knowledge and skills of contact personnel.
- Create an organization- wide image that reflects the core values of the university namely that our university is committed to learning teaching and research.
- Building a strong corporate brand image, that enhances our good standing in the country.

***Strategies that can be used by management to show Empathy should include:***

- Making students feel important by responding to their needs and understanding their concerns.
- Training staff to be empathetic towards the needs of students.
- Training staff to know students by name and by their service needs.

The above recommendations made to the University of KwaZulu-Natal management can go a long way in improving service quality and service delivery within all structures of the university. The University of KwaZulu-Natal's excellence in service quality could be its silver lining in making it a premier university of African scholarship. From a long term perspective, this could be its competitive advantage in attracting students from within South Africa and abroad.

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# **THE DEPICTION OF WOMEN IN SOUTH AFRICAN MAGAZINE ADVERTISEMENTS**

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**Key words:** advertising, portrayals, women, advertisements, products

# THE DEPICTION OF WOMEN IN SOUTH AFRICAN MAGAZINE ADVERTISEMENTS

## ABSTRACT

Advertising is generally accepted to reflect reigning societal norms. As such, it often features stereotypes, and women in particular seem to be cast in limited stereotypes such as mothers or sex objects. Advertisers use women in advertising for various product and service categories. The objectives of the study included *inter alia*, to determine role portrayals of women in South African magazine advertising, to determine the product and service categories that feature female models, as well as the particular roles that women portray in different product/service category advertisements. The study utilised a content analysis of advertisements in selected magazines. The paper presents the female roles identified in the study, the product/service categories advertised and the specific female role portrayals featured in the product/service category advertisements. The findings indicate that the physically decorative portrayal is dominant and personal care products are most often advertised. Personal care advertising most often featured the female role of the physically decorative woman.

## INTRODUCTION

Advertising is often said to mirror social reality. The modern South African woman fulfils many roles in life, and advertising aimed at reaching this lucrative target audience should use portrayals that women can relate to and identify with. Women are featured in many types of product or service advertising, and often the depictions are based on gender targeting. The depictions featured in advertisements are seen as mirroring current social values, and often this perpetuates negative or limited stereotyping of women (Grau, Roselli & Taylor, 2007:63). Women constitute a large target audience, and many products and services are aimed at attracting female custom (Hung, Li & Belk, 2007:1038).

The research on which this paper is based was conducted to establish female role portrayals in South African magazine advertising. The paper will discuss the roles identified in magazine advertisements, present the product and service categories that featured women in their

advertisements, and indicate the specific roles featured in particular product/service category advertising.

## **PROBLEM INVESTIGATED**

The portrayal of women in South African advertisements has not been studied often in recent years. Research on female roles in specific product category advertising is not widespread, and such studies in a South African context are uncommon. Rudansky (1991) conducted a content analysis of female roles in South African magazine advertisements, and Holtzhausen (2010) researched female portrayals in magazines and television advertising (the latter study provided the basis for this paper). These abovementioned studies included an analysis of the product/service categories that were advertised featuring female models. The focus of this paper is to highlight which particular role portrayals featured in the specific product/service category advertisements.

## **RESEARCH OBJECTIVES**

The primary objective of the study is to identify the role portrayals of women in South African magazine advertisements. Furthermore, the study included *inter alia* the following secondary research objectives:

- To examine the number and type of different product/service categories in advertisements featuring women.
- To determine the product or service categories advertised for the various roles.

## **LITERATURE REVIEW**

Over the years, many researchers have studied the manner in which women are portrayed in different advertising media, particularly in magazines and on television. As the focus of the paper is on magazine advertisements, the discussion will highlight recent research on magazine advertising. Researchers that studied female portrayals in magazine advertisements include Plakoyiannaki and Zotos (2009); Bolliger (2008); Grau *et al.* (2007); Hung *et al.* (2007); Döring and Pöschl (2006); Koernig and Granitz (2006); Razzouk, Seitz and Vacharante (2003), as well as Rudansky (1991), which is the most current reviewed study that examined advertisements in a South African context.



Several universal female role portrayals were identified in the reviewed literature. These are presented in Table 1, along with short descriptions of each role.

**Table 1 Universal female role portrayals in magazine advertisements**

Role portrayals	Description	Sources
Sex object	This depiction shows the woman in a provocative pose, wearing revealing clothing. Her manner is sexually suggestive and alluring.	Bolliger (2008:51); Döring & Pöschl (2006:184); Grau <i>et al.</i> (2007:63); Johnson, Rowan & Lynch (2006:8); Koernig & Granitz (2006:91); Monk-Turner, Wren, McGill, Matthiae, Brown and Brooks (2008:206); Plakoyiannaki & Zotos (2009:1417); Razzouk <i>et al.</i> (2003:122); Rudansky (1991:147).
Mother/nurturer	This portrayal features a woman with at least one child. Her attention is focused on the child or on the advertised product. Her attitude and/or actions suggest nurturing.	Bolliger (2008:51); Döring & Pöschl (2006:184); Hung & Li (2006:11) and Hung <i>et al.</i> (2007:1039); Koernig & Granitz (2006:91); Rudansky (1991:144).
Physically decorative	As a glamorous figure, the decorative female's physical appearance is important and she epitomises a physical ideal.	Bolliger (2008:51); Döring & Pöschl (2006:182); Hung & Li (2006:13); Johnson <i>et al.</i> (2006:7); Plakoyiannaki & Zotos (2009:1417); Razzouk <i>et al.</i> (2003:124).
Career woman	The career woman portrays an image of professionalism across various employment categories (e.g. executives, service personnel).	Hung & Li (2006:13); Koernig & Granitz (2006:91); Plakoyiannaki & Zotos (2009:1417); Razzouk <i>et al.</i> (2003:124); Rudansky (1991:148).
Housewife/homemaker	This portrayal features a woman in a household environment, performing household chores (e.g. cooking). The housewife category includes the dependant woman: one who does not make any important decisions, and who seeks security and support.	Bolliger (2008:51); Döring & Pöschl (2006:184); Koernig & Granitz (2006:91); Plakoyiannaki & Zotos (2009:1417); Razzouk <i>et al.</i> (2003:122); Rudansky (1991:143).
Mannequin	The mannequin's function is to exhibit the product, which is apparel. This portrayal has no distinct relation to other people or any focus on external elements.	Razzouk <i>et al.</i> (2003:124); Rudansky (1991:149).
Product user	This woman is preparing to use or is in fact making use of the advertised product.	Johnson <i>et al.</i> (2006:7); Plakoyiannaki & Zotos (2009:1417).
Social being	The social portrayal depicts the woman in a variety of social contexts, and she is portrayed with other people. Her attention is on the others or the activity being participated in.	Plakoyiannaki & Zotos (2009:1417); Rudansky (1991:146).
Romantic	The romantic role portrays a woman with a man in a romantic setting and her expression indicates positive emotion. The romantic role includes <i>inter alia</i> wives or girlfriends.	Hung <i>et al.</i> (2007:1039); Rudansky (1991:145).

The study included the roles presented in Table 1, and also made provision for "other" roles. Furthermore, a portrayal referred to as "background element" was included. Any female

portrayals apart from the pre-identified roles, which presented specific, definable activities, were classified as “other” in order to establish if any new roles could be identified. The “background elements” represented portrayals that were non-functional and had no distinctive purpose. They could therefore not be categorised as “other” roles since they basically serve as “space fillers”. The research method utilised in the study was content analysis, and the analysis focused on the visual elements of the advertisements.

## RESEARCH METHOD

The study analysed magazine advertisements using content analysis. According to Berelson (in Krippendorff, 2004a:19) content analysis is “the objective, systematic, and quantitative description of the manifest content of communication.” Inherent in the definition of content analysis is the fact that the measurement units in a content analysis are message units. This aspect makes content analysis particularly useful for the study of advertisements.

The current study analysed the images of women featured in advertisements, aiming to identify role portrayals based on specific pre-defined categories. The study also examined, among other things, the product categories that featured specific role portrayals. The study used descriptive statistics in order to determine the incidence of role portrayals, as well as the roles featured in specific product/service category advertisements.

Three independent coders were used in the study. As the study featured nominal measurement levels, and used multiple coders, the reliability measures suitable to the study were limited. Various reliability measures are available in content analysis (e.g. per cent agreement, Scott’s *pi*, Cohen’s *kappa*, Krippendorff’s *alpha*, Spearman’s *rho* and Pearson’s correlation coefficient). Krippendorff’s *alpha* is generally acknowledged as a suitable measure for multiple coders (Krippendorff, 2004b:428). Furthermore, some variables could have more than one response (e.g. more than one specific role in one advertisement), and Krippendorff’s *alpha* is not suitable for multiple responses. In these cases (multiple responses, multiple coders), per cent agreement was used to calculate reliability, whereas for single responses (multiple coders), Krippendorff’s *alpha* was used. Various previous studies also utilised per cent agreement to measure reliability (Hung *et al.*, 2007:1041; Ibroscheva, 2007:412).

For the roles variable, the reliability score was 84 per cent. The Krippendorff's *alpha* reliability score for the product category variable was 1, which indicated 100 per cent agreement. According to Neuendorf (2002:143), reliability scores of 0.80 or higher are considered acceptable; therefore these reliability scores are satisfactory.

The study required a sample that featured at least one woman per advertisement, as such advertisements would contain the information needed for the purposes of the research objectives. Therefore purposive sampling was used to select the magazines from which the sample advertisements were drawn. According to Patton (in Saunders, Lewis & Thornhill, 2007:232), purposeful sampling needs to select "information-rich cases", so that the sample is suitable for the requirements of the study.

The magazine sample included a variety of magazine types with readership figures of 500 000 or higher according to the South African Advertising Research Foundation (SAARF)'s All Media and Products Survey (AMPS). Table 2 presents the AMPS figures for the magazine sample.

**Table 2 AMPS 2008B figures for magazines sample**

	<b>Magazine</b>	<b>Readership</b>	<b>% of adult population</b>
1	Bona	2 218 000	7.1
2	True Love	2 175 000	6.9
3	You	2 139 000	6.8
4	Cosmopolitan	823 000	2.6
5	Fair Lady	758 000	2.4
6	Rooi Rose	648 000	2.1
7	FHM	619 000	2
8	O' The Oprah Mag SA	616 000	2
9	Sarie	604 000	1.9

Source: Adapted from South African Advertising Research Foundation (2008)

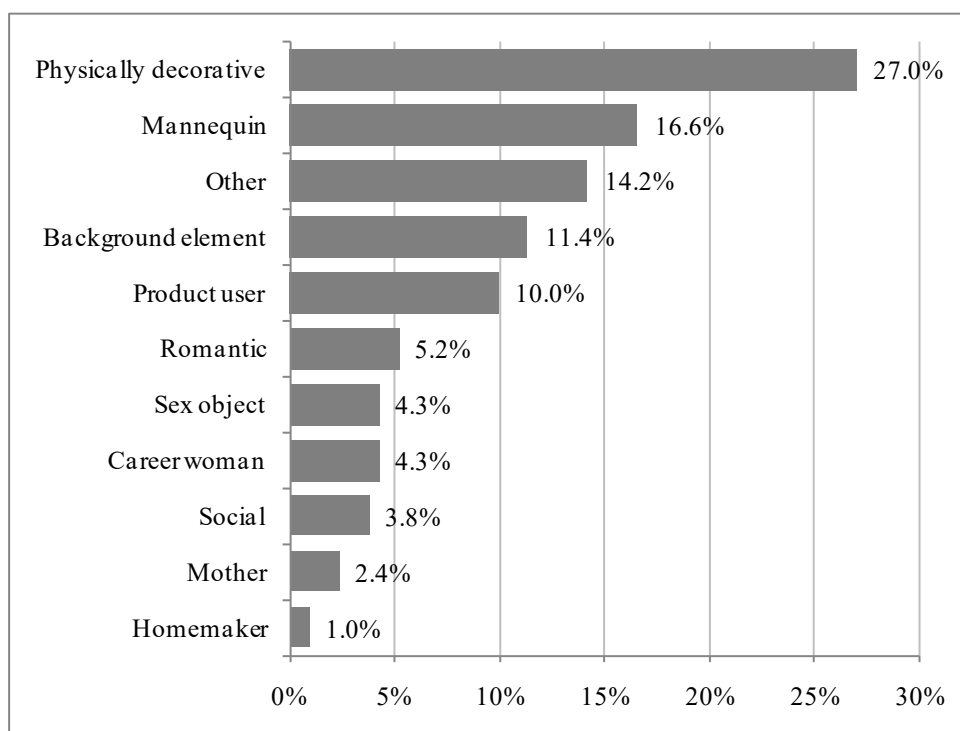
## **RESEARCH FINDINGS**

The study revealed that of all the advertisements in the sampled magazines (625 full-page or double-page advertisements), 54.7 per cent contained women. The advertisements that featured women contained role portrayals as well as other elements that pertained to the

research objectives. Following is a discussion of the roles that were portrayed; the product or service categories that featured females; and the specific roles that were portrayed in specific product or service category advertisements.

Figure 1 shows the role portrayals that were uncovered in the study in ranking order.

**Figure 1 Role portrayals in magazine advertisements**



It is clear from Figure 1 that the physically decorative portrayal was dominant (27%), followed by the mannequin (16.6%). These results are consistent with previous research, as the physically decorative female was also prevalent across a range of advertisements in various countries (Bolliger, 2008:51; Döring & Pöschl, 2006:179; Hung & Li, 2006:22; Razzouk *et al.*, 2003:123). The mannequin was the most prevalent portrayal in South African advertisements in the nineties (Rudansky, 1991:169), and it still seems to be a popular portrayal.

The woman was least often depicted as a homemaker (1%). Again, there are similarities between these findings and that of previous studies, as many researchers such as Plakoyiannaki and Zotos (2009:1423), Bolliger (2008:49), Döring and Pöschl (2006:183) as well as Rudansky (1991:162) indicated very low prevalence of homemakers in their research.

## Product categories

Twelve product and service categories were identified in the study. These are apparel, alcoholic beverages, non-alcoholic beverages, transport, electronics, entertainment, food, health and medication, household, personal care, services and sport. Any product/service categories not found in the list were classified as “other”. Figure 2 represents the product/service category advertisements that featured women.

**Figure 2 Product/service category advertisements that featured women**

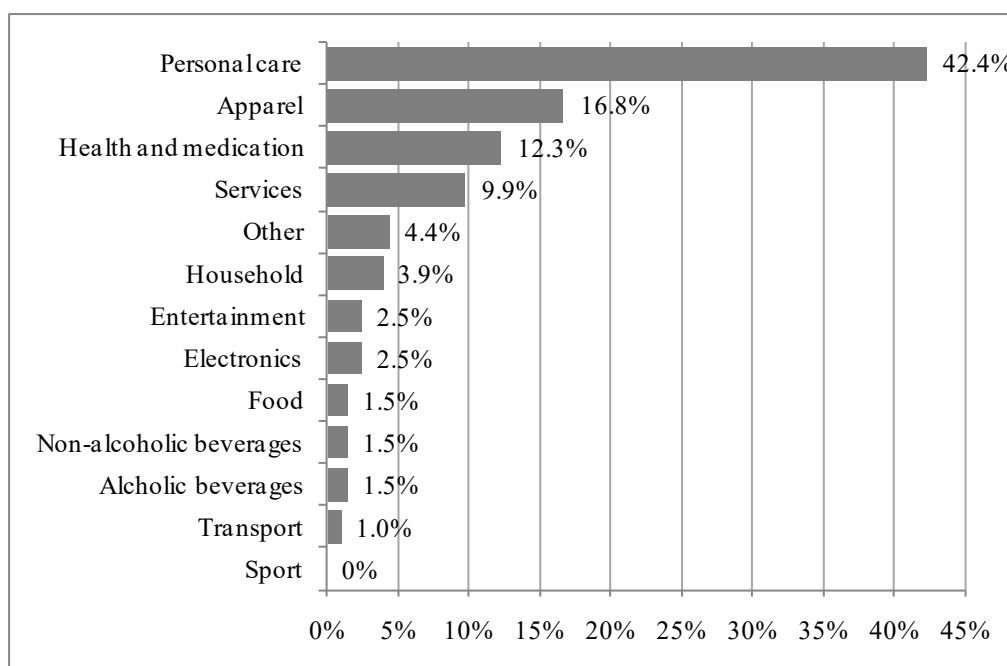


Figure 2 indicates that the product category that featured women most often was personal care (42.4%), followed by apparel (16.8%). No advertisements for sport products (featuring women) were found in the study. The product category of personal care included cosmetics, skincare products, personal hygiene items and fragrances (perfumes). Apparel included all types of clothes, shoes, accessories as well as jewellery.

These results are consistent with findings of previous research. Personal care advertisements featuring women were prevalent in studies by Plakoyiannaki and Zotos (2009:1427), Razzouk *et al.* (2003:121) as well as Rudansky (1991:159). Apparel also featured prominently in the study by Plakoyiannaki and Zotos (2009:1427). As the personal care category includes cosmetics which are primarily targeted at females, the results are not surprising. Furthermore,

apparel advertisements feature clothes and accessories specifically aimed at women, particularly in women's magazines.

The findings indicate that women are featured consistently in specific product category advertisements, and these tend to be based on gender targeting. For example, women were featured primarily in personal care products, which are aimed at enhancing physical beauty. Conversely, women were not featured at all in sport-related advertising. Sport is an area that is traditionally considered male domain, and the findings suggest that South African advertisers prefer to connect females with product categories associated with women, and they do not favour women in advertising products aimed at men. This is supported by the fact that women did not often feature in advertising related to transportation (1%), which included cars, car accessories and other means of transport such as motorcycles. These results seem to suggest a reluctance of advertisers to feature women in domains traditionally associated with males.

### **Roles portrayed by women in specific product/service magazine advertisements**

The study also investigated which particular role portrayals featured in the specific product/service category advertisements. These findings are presented in Table 3 below.

**Table 3 Roles in specific product/service advertisements**

<b>Roles</b>	<b>Product/service category</b>	<b>N</b>
Physically decorative	Personal care	52
Mannequin	Apparel	34
Background element	Health and medication	11
Product user	Personal care	10
Romantic	Personal care	6
Sex object	Personal care	6
Career woman	Services	5
Mother	Other	2
	Personal care	2
Social	Household	2
	Services	2
Homemaker	Food	1
	Health and medication	1

The physically decorative role was most often found in personal care advertising. This result is consistent with previous studies which also indicated that decorative portrayals were dominant in personal care product advertisements (Plakoyiannaki & Zotos, 2009:1427; Hung & Li, 2006:22; and Razzouk *et al.*, 2003:123). Therefore the findings suggest that South African advertisers follow international trends in terms of associating physically decorative portrayals with personal care items.

The role of mannequin was found almost exclusively in apparel advertisements. This result was expected as the function of the mannequin portrayal is to exhibit or showcase apparel. A previous study by Rudansky (1991:181) also indicated a tendency to portray the mannequin in advertisements for clothes and shoes. The non-functional portrayal of women as merely being part of the background in the advertisement was often found in health and medication advertisements, which included vitamins, natural remedies and all types of medication. Previous studies have found distinct roles in this product category. For example, Razzouk *et al.* (2003:123) found that medication advertisements featured physically decorative women, and Rudansky (1991:181) indicated that the mother role featured in advertisements for medication.

The woman as a product user featured mostly in personal care advertisements, and in more than half of the cases the depiction was in the form of before-and-after pictures. This type of depiction is effective in terms of displaying the utility of the advertised product, as they represent the results of the use of the brand.

## **MANAGERIAL IMPLICATIONS**

The high prevalence of women portrayed as physically decorative suggest that females as physically beautiful creatures are still important in South African magazine advertisements. According to Napoli and Murgolo-Poore (2003:60), young women tend to strive toward the physical ideal depictions in advertisements. This implies that in terms of consumer socialisation, young women may learn gender roles that are limited to the importance of physical perfection. The tendency of women being “judged” on ground of their physical beauty alone may impact negatively on women.

According to the *Female Nation Survey (Women24, not dated)*, 41 per cent of South African women living in urban areas would favourably consider plastic surgery. This indicates dissatisfaction with their physical attributes, and may be indicative of the impact of the constant appearance of physically “perfect” women in advertisements. The negative impact of decorative ideals in advertising is supported by Baird and Grieve (2006:116), who state that women compare themselves negatively with the physical ideals portrayed in media, leading to dissatisfaction with their own physical appearance.

The portrayed value of women in South African advertisements therefore seems to be linked to their physical attractiveness rather than their skills or achievements. This is further supported by the low prevalence of women portrayed as career women (4.3%). This finding is not consistent with social reality in South Africa, because women represent half of the work force in the country (Van Klaveren, Tijdens, Hughie-Williams & Martin, 2009:5).

Magazine advertisers appear to be following the international trend of depicting women in a decorative manner rather than in a manner that shows her skills and achievements. This indicates a limited view of the modern South African woman, who in reality fulfils multiple functions and roles, including that of a career woman. It is possible that such limited portrayals may be viewed as unrealistic by South African woman, as was the case in a study by Sim and Suying (2001:488), who found that women believe that advertisements do not convey “the true lifestyles” of females. The reality of the modern South African woman needs to be acknowledged in advertising, as the female consumer identifies more readily with portrayals that reflect her own circumstances.

In terms of the findings on product/service category advertisements that featured women, personal care products were predominant. As this product category includes cosmetics, the result is not unexpected – cosmetics are primarily targeted at women. The results of the study indicate a viewpoint that physical attractiveness and beauty are crucial to women, therefore grooming and its associated products are important. Advertisers who feature physically beautiful women in advertisements for products aimed at enhancing beauty are applying basic marketing principles in terms of matching product benefits with the portrayal in the advertisement.



However, as the physically decorative portrayal is prevalent in personal care advertisements across most cosmetics brands, there is little differentiation in terms of portrayals. Whether advertisers of personal care items are succeeding in breaking through advertising clutter is open to debate. With most of these product category advertisements featuring one or other physically decorative woman, the distinction between brands may be compromised. This is particularly important when it is considered that consumers apply selective perception to assist in processing of information, and the similarity of portrayals across different brands may negate individual brand equity for personal care brands. Advertisers of personal care items should consider featuring other portrayals in order to achieve successful differentiation.

In the health and medication product category women were often portrayed as a background element in the advertisement. Products in this category may be better advertised by featuring a female in a specific, identifiable role, such as a mother, or a health professional (career woman). The prevalence of the background element seem to indicate that advertisers are placing women in health and medication advertisements only to fill space, and not to convey any particular meaning. Utilising portrayals that signify specific roles may assist the target audience's identification with the brand as consumers find it easier to associate with a particular, identifiable role. Featuring specific roles and linking to specific portrayals will enhance brand differentiation and facilitate a connection between the target audience and the advertised brand.

## **FUTURE RESEARCH**

Future research should be conducted to determine how women perceive female portrayals in advertisements. Such research will enable advertisers to determine effectiveness of featured advertising depictions, and also provide an indication of whether or not women identify with current portrayals. The impact of the physically decorative role in particular and the significance thereof on the target audience could be investigated.

As the magazine sample included the most popular magazines and excluded specialist publications, it consisted mostly of magazines aimed at female audiences. A sample that includes magazines that have low circulation figures (and/or specialist magazines) may reflect different roles (and also variations in featured product/service category advertising). An additional future research project could analyse business-related publications in order to

determine if other role portrayals occurs, and whether certain roles (such as the career woman) occurs more frequently in such publications. Future studies could also include a wider range of consumer magazines for the same reasons.

Depth interviews or focus groups could be conducted to establish how role portrayals affect women's self-images, and also the impact on brand perceptions. Results of such research could enable companies to establish whether their brand advertising is conveying the intended image and whether the imagery is viewed favourably by the target audience.

## **CONCLUSION**

This paper presented selected results of a study conducted to determine the portrayal of women in South African magazine advertisements. The content of the paper focused on the various roles portrayed in advertisements, the product/service category advertisements that contained women and the particular role portrayals featured in specific product/service category advertisements. The paper showed that physically decorative portrayals were prevalent in the sample of South African advertisements, and that personal care products were most often advertised using female models. In terms of the roles featured in particular product categories, women as physically decorative creatures were most often found in advertising of personal care items such as cosmetics. The prevalence of the decorative role in personal care advertising indicates a possible lack of differentiation between personal care brands, as the portrayals across brands are very similar (i.e. the physical ideal). In order to facilitate brand differentiation and ultimately build brand equity, advertisers need to consider featuring a variety of portrayals that will set their brands apart from competing brands.

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# **THE EFFECT OF AMBIENT FACTORS AND SERVICE QUALITY ON CUSTOMER SATISFACTION**

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**Keywords:** service quality; customer satisfaction; ambient factors; customer loyalty; physical environment

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# THE EFFECT OF AMBIENT FACTORS AND SERVICE QUALITY ON CUSTOMER SATISFACTION

## ABSTRACT

Customers no longer dine at restaurants solely to satisfy their need for food, but also for the service and ambient experience. As customers' needs and wants evolve, so does the way in which they evaluate and perceive goods and services. The restaurant industry no longer solely focuses on serving quality and food alone, but rather on providing a satisfying dining experience, which encompasses physical aspects of a restaurant's interior environment, as well as the factors that encompass service quality. The purpose of this study is to determine the effect that ambient factors such as interior design, music and lighting and service quality have on providing a gratifying dining experience for the customer.

Customer satisfaction has become a tool for creating competitive advantage in the restaurant industry and by focusing on customer's evolving needs, restaurants can ensure return patronage. The constructs used in the study were tested through a survey among casual diners in Pretoria, which took the form of a self-administered questionnaire comprising 5-point Likert-type scales. Multiple choice single response questions were included, which aimed at determining demographic characteristics of the chosen target population.

Both ambient factors and service quality were found to have an effect on customer's satisfaction with the dining experience, however, the results suggest that service quality has a stronger correlation with satisfaction than ambient factors. The study indicates that a strong correlation exists between service quality and customer satisfaction, highlighting the key role of service quality as a means to ensure restaurant patron satisfaction. Previous studies considered the effect of service quality and ambient factors on customer satisfaction separately, while this study examined the combined effect of service quality and ambient factors and how these factors influence customer's satisfaction.

An implication for managers is that service quality in a restaurant is more important to customers than the ambient factors in the restaurant's environment, therefore managers should place greater emphasis on ensuring high service quality. However, managers should also take note of the design and layout of the restaurant's interior, since design and layout have been shown to impact customers' satisfaction when dining.

## INTRODUCTION

Customers no longer dine at restaurants solely to satisfy their need for food, but also for the service and ambient experience. As customers' needs and wants evolve, so does the way in which they evaluate and perceive goods and services. Customer's perceptions of the dining experience in restaurants are increasingly influenced by two major factors namely: ambience and service quality (Ladhari, Brun & Morales, 2008:568).

Since the restaurant industry is growing annually and more competitors enter the industry, this study aims to demonstrate the importance for restaurants to guarantee customer satisfaction by creating aesthetically pleasing environments and superb service to ensure customers' return patronage (Ladhari *et al.*, 2008:563).

Previous research has addressed several aspects of the physical environment and ambient factors in a restaurant (Areni, 2003:161-184; Han & Ryu, 2009:489-491; Ryu & Jang, 2007:56-72), service quality (Chow, Lau, Lo, Sha & Yun, 2007:698; Ladhari *et al.*, 2008:564) and the effect that they have on customer satisfaction (Kivelä & Yiu Ha Chu, 2001:251-271; Noone & Mattila, 2009:31-41). However, previous studies, such as the one conducted by Areni (2003:165-170), focused on aspects of the physical environment and the ambient factors that are present, in separate contexts. The same can be said for service quality, as researchers such as Chang, Chen and Hsu (2009:12) and Shaikh (2009:180) have often only focused on certain dimensions of service namely responsiveness, reliability, assurance and empathy, separate to the physical environment and its ambient factors.



Even though recent studies address the physical environment and ambient factors, very little research has been conducted considering the two factors together, especially in a South African context. Ladhari *et al.* (2008:563) found that a customer's perception of service is greatly influenced by the restaurant's atmosphere. For that reason it is seemingly important to research these two aspects together to ascertain how they affect customer satisfaction. Few studies have researched the physical environment and service quality together, even though it has been noted that the physical environment influences the customer's perception regarding service quality (Ha & Jang, 2010:1; Ladhari *et al.*, 2008:563).

This study aims to bridge the gap by evaluating the physical environment and the ambient factors therein, as well as service quality and the effect thereof on customer satisfaction.

## **AMBIENT FACTORS AND THE PHYSICAL ENVIRONMENT**

The physical environment can be defined as the internal area of a restaurant with emphasis placed on the restaurant dining area (Ryu & Jang, 2007:60). The conditions present within the internal environment are controllable forces created by restaurant management (Han & Ryu, 2009:489-491). Wall and Berry (2007) found that the physical environment/atmospherics is an important element of the dining experience. According to Ha and Jang (2010:1) and Ladhari *et al.* (2008:563), customers will first evaluate the interior of a restaurant and overall atmosphere, before they evaluate the service and food quality. Ryu and Jang (2007) also found that the dining environment impacts on the behavioural intentions of customers.

A number of studies (Han & Ryu, 2009:489-491; Ryu & Jang, 2007:57-63) have reached the conclusion that the physical environment consists of a number of ambient factors, which can be described as factors present in an environment that are not directly observed but are experienced through the senses on a more subconscious level. Baker in (Ha and Jang, 2010) proposed three dimensions of atmospherics: ambient factors (music and lighting), interior design (layout, displays and pictures) and social factors (salespeople). However, social factors were not included in this study as the focus is on the physical environment. The focus of this study has thus been placed on the most dominant, controllable by restaurateurs and commonly used attributes of

restaurant atmospherics as identified by Ha and Jang (2010) and Han and Ryu (2011) namely interior design, music, lighting and layout of the facilities. . These ambient factors are discussed below.

### **Interior design and layout elements**

Interior design elements refer to the restaurant's décor. Décor pertains to visual appeals placed in the interior of the restaurant to increase its pleasant appearance. Layout describes how the furniture and other interior objects within a restaurant are arranged (Han & Ryu, 2009:490).

The DINESERV model, referred to by Barber and Scarcelli (2010:75-85), outlines factors that can be used to evaluate customers' perceptions of a restaurant. Décor and layout are two of the factors present in the DINESERV model and are characterised as tangible dimensions by Ladhari *et al.* (2008:568). Décor and layout are the most noticeable ambient factors that customers experience when dining.

### **Lighting elements**

The lighting in a restaurant is an important factor to consider when assessing a restaurant's physical environment (Ryu & Jang, 2007:60). Lighting that is subtle creates an atmosphere that encourages longer dining sessions, since a sense of comfort and pleasure is created. Bright lighting creates a more uncomfortable atmosphere resulting in fast dining. Wu and Liang (2009:591) also mention that lighting plays an essential role in providing customer satisfaction within a restaurant.

### **Background music**

Background music can be used to create a mood that encourages a slower dining pace and increases a customers' perception of comfort during their dining experience (Areni, 2003:165-170). According to Andersson and Mossberg (2004:171-173), customers will extend their dining duration if they are having an enjoyable experience, thus having background music which creates a pleasant atmosphere assists to enhance customer satisfaction (Areni, 2003:161-184).

Research suggests that customer satisfaction is strongly influenced by the physical surroundings (Han & Ryu, 2011; Knutson & Patton, 1995). Ha and Jang (2010) also found that atmospherics moderates the relationship between service quality and customer satisfaction. However, they also suggest that even if a restaurant atmospherics are not satisfactory, providing excellent service could induce satisfaction.

## **SERVICE QUALITY WITHIN THE RESTAURANT CONTEXT**

According to Jordaan and Prinsloo (2004:8-9), a service can be defined as: “an act or performance that one party can offer to another that is essentially intangible”. Ownership is not passed to anyone; however the production may be tied to a physical product.

There are several characteristics set out by Boshoff (2003:176-179) that define a service, which include intangibility (a service cannot be seen, smelled or touched), perishability (a service cannot be stored and has to be produced on demand), simultaneity (the service is produced and used at the same time) and heterogeneity (there is a potential high variability in services).

Jordaan and Prinsloo (2004:37) have described service quality to be the organisation’s ability to determine what customers expect from the service that is being provided and the organisations’ ability to, at the very least, equal the customers’ expectations.

In recent studies, service quality has been viewed as one of the most important factors to consider within a restaurant environment (Chow *et al.*, 2007:698; Ladhari *et al.*, 2008:564). In the case of a restaurant, the service is seen as a hybrid, as it offers both a tangible product (the food) as well as an intangible service (the service offered by the waiters and other staff members), thus it is clear that restaurants not only provide food, but a full service experience (Ladhari *et al.*, 2008:564). Following from the fact that restaurants provide both tangible and intangible products and services, the researchers decided to separate the two aspects for the current study.

The SERVQUAL model (an acronym for service quality) is a model commonly used by researchers studying the service industry (Chow *et al.*, 2007:700; Jordaan & Prinsloo, 2004:63-

67; Ladhari *et al.*, 2008:567). For the purpose of this study, the SERVQUAL model was not used in its purest form, but rather, the tangible and intangible dimensions of the model were investigated separately.

The physical attributes of the restaurant (tangible cues) include the appearance of equipment, personnel, physical facilities and communication material (Jordaan & Prinsloo, 2004:64). The physical layout of a restaurant and the ambient factors present are classified as tangibles in the SERVQUAL model. The tangibility element was measured separately with regards to ambient factors such as the physical environment, interior design and layout elements, lighting and background music and thus were not discussed as a subset of service quality, but rather in the pre-ceeding paragraphs regarding ambient factors and the physical environment.

The remaining four service dimensions of the SERVQUAL model are related to the more intangible aspects of service quality, as discussed below.

- Reliability: whether the service promise has been kept, in other words, the ability to dependably and accurately deliver the service as promised (Jordaan & Prinsloo, 2004:64). In a study conducted by Chow *et al.* (2007:707), customers rated the skills and competence of employees in restaurants as very important. Wu and Liang (2009:591) support this argument in their findings by stating that customers are delighted by friendly and reliable service.
- Responsiveness: how willing the personnel are to provide the service and the speed at which the service is delivered (Jordaan & Prinsloo, 2004:64). Shaikh (2009:181) found that the responsiveness of the employees is viewed as a major deciding factor for customers when choosing where to dine. Andaleeb and Conway (2006:7) retrieved 85 usable questionnaires where the majority identified responsiveness as the most important dimension when visiting a restaurant.
- Assurance: how knowledgeable and courteous the personnel are and their ability to convey trust and confidence (Jordaan & Prinsloo, 2004:64). In a study conducted by Ladhari *et al.* (2008:570), assurance proved to be the most important dimension, as it encompasses the knowledge and courtesy of restaurant employees. Customers want to be

served by employees that have a good attitude and that appear friendly and helpful (Wu & Liang, 2009:592).

- Empathy: how personnel sympathise with customers and understand their needs. Customers visiting restaurants want to feel cared for and seek individual attention from employees when being served. For that reason customers viewed empathy as an important factor in a study conducted by Ladhari *et al.* (2008:570). In a study conducted in family restaurants in Korea, customers placed the greatest importance on empathy (Lee, Park, Park, Lee & Kwon, 2005:42).

## **CUSTOMER SATISFACTION WITHIN THE RESTAURANT CONTEXT**

Customer satisfaction can be described as the end result once a customer's expectations of a particular product or service are met or exceeded (Jordaan & Prinsloo, 2004:41; Lamb *et al.*, 2010:5). Lamb *et al.* (2010:5) refer to the disconfirmation paradigm which states that when performance meets or exceeds customer expectations, both lead to customer satisfaction, however, when performance is less than customer expectations, dissatisfaction occurs.

Kivelä and Yiu Ha Chu (2001:253-265) explain that the dining experience consists of those emotional and functional aspects that a customer experiences when dining. Noone and Mattila (2009:31-33) support the above explanation by stating that consumers no longer dine at restaurants with the intention of merely satisfying their hunger – present day customers view the dining experience as a social event which also satisfies the need for entertainment.

Research conducted regarding favourable and unfavourable service encounters in restaurants show that customers' perceptions of the dining experience are influenced by societal standards (Kivelä & Yiu Ha Chu, 2001:251-271). Customers are used to certain standards when dining and if such expectations are not met by the restaurant, the customer may experience dissatisfaction. Studies by Kivelä and Yiu Ha Chu (2001:253-265) and Ryu and Jang (2007:56-72) also support the notion that customer satisfaction is experienced on both emotional and cognitive levels.

Customers evaluate a restaurant's physical space on an emotional and functional level (Ladhari *et al.*, 2008:27), thus the physical environment of a restaurant must be designed to elicit positive emotions from customers as well as meet their basic needs and wants in order for customers to experience satisfaction. Such an emotional connection makes customer satisfaction a complicated aspect for managers to attain, since the dining experience should not only provide customers with an emotionally pleasurable experience, but should simultaneously satisfy their basic needs and wants (Ryu & Jang, 2007:57).

Benefits for restaurants that can be incurred if customers are fully satisfied include lower acquisition costs, revenue growth and referrals Lamb *et al.* (2010:8-9).

Customer loyalty is viewed by Boshoff (2003:206) as the continued and repeated patronage of customers as well as the customers' willingness to voice their opinions to the organisation regarding what they are doing wrong and their suggestions on how to correct the shortcomings. Chow *et al.* (2007:705) argue that customer satisfaction does not mean return patronage, as many different factors may influence a customer's loyalty and intent to return. It is therefore important to build lasting relationships with customers and thereby ensure customer loyalty.

From the literature review, it is clear that creating a pleasant dining experience for customers is important to ensure their satisfaction and in return, receive customer loyalty. Ladhari *et al.* (2008:563) mention that customer satisfaction can be directly linked to customer loyalty as well as return patronage and positive word-of-mouth.

## **RESEARCH OBJECTIVES AND HYPOTHESES**

The main purpose of this study is to investigate the effect that the physical environment and the ambient factors therein, as well as the service quality in a restaurant, have on customer satisfaction. More specifically, the research aims to achieve the following specific research objectives: (a) to determine customer perceptions of the interior design elements, lighting and background music present in a restaurant; (b) to determine the customer perceptions of the

service quality in a restaurant; and (c) to determine customer satisfaction with the dining experience.

To address the objectives, the following hypotheses were formulated:

H<sub>1 (null)</sub>: There is no correlation between the customer's perception of the attractiveness of the ambient factors present in a restaurant and the customer's satisfaction with the dining experience.

H<sub>1 (alt)</sub>: The customer's perception of the attractiveness of the ambient factors present in a restaurant are positively correlated to customer satisfaction with the dining experience.

H<sub>2 (null)</sub>: There is no correlation between the customer's perceptions of the service quality in a restaurant and the customer's satisfaction with the dining experience.

H<sub>2 (alt)</sub>: The customer's perception of the service quality in a restaurant is positively correlated to customer satisfaction with the dining experience.

H<sub>3 (null)</sub>: There is no significant difference between the correlation of customer's perception of the service quality in a restaurant and customer satisfaction with the dining experience and the correlation between customer's perceptions of the attractiveness of ambient factors and the customer's satisfaction with the dining experience.

H<sub>3 (alt)</sub>: There is a significant difference between the correlation of customer's perception of the service quality in a restaurant and customer satisfaction with the dining experience and the correlation between customer's perceptions of the attractiveness of ambient factors and the customer's satisfaction with the dining experience.

## **RESEARCH METHODOLOGY**

### **Sampling**

The sample size was 200 respondents, which were divided as equally as possible according to the gender groupings to ensure that the sample is a reflection of the population. The target population consists of both male and female diners above the age of 18 (adults), dining at an Asian cuisine restaurant in Brooklyn, Pretoria. Adults aged 18 years and older were chosen for this study due to the wider dining experiences that they possess. The chosen restaurant in Brooklyn, Pretoria is

located in a middle-to-upper class area surrounded by many office parks, attracting young professionals who live and work in the area. Due to funding and time constraints the study focused on collecting data at a single restaurant.

The sampling method used for this study was non-probability quota sampling, since there was no available sampling frame that could be used. The quotas were based on the Community survey conducted in 2007 (Gapminder, 2008), which indicates that Pretoria has a gender grouping of 49% males and 51% females. The response rate was 100% as all the questionnaires were returned fully completed.

### **Measuring instrument**

Pretesting was conducted on the draft version of the questionnaire using the participant pretesting option (Cooper & Schindler 2008:369). A sample of 20 respondents, 11 female and 9 male, were used for pretesting.

A multiple-item, single-response, 5-point Likert-type scale was used to measure each of the constructs, which ranged from (1) „Strongly disagree“, indicating the lowest score and the most disagreeableness towards the statement, and (5) „Strongly agree“, indicating the highest score and the most agreeableness towards the statement. Scales used by Han and Ryu (2009:498) and Ladhari *et al.* (2008:567) were used as a base for the scale. No statements in the questionnaire were negatively worded; therefore none of them were reverse-coded. The demographic variables of the respondents were measured using questions regarding gender, age and home language.

A Cronbach alpha value of 0.7 was used as a benchmark value and any value that reached or exceeded 0.7 was regarded as having sufficient internal consistency (University of Pretoria, 2010:105-106; Streiner & Norman, 2003:162). The Cronbach alpha values were all above the 0.7 cut-off ranging from 0.715 – 0.900, indicating a high level of reliability between items (Customer satisfaction (0.839); Service quality (0.900); Ambient factors (0.715)).

The self-administered questionnaire, with a fieldworker on hand, was used to conduct the survey. If respondents needed assistance, the fieldworker was able to guide them, but did not ask the



questions nor completed the survey on the respondents' behalf. There were no incentives for the participants to complete the survey; participation was voluntary.

## **EMPIRICAL RESULTS**

### **Sample description: Demographics and respondent dining profile**

The results suggest that 70% of the respondents had previously dined at the restaurant. The respondent's reasons for dining included casual dining (83.5% of respondents), whilst 6% dined for special occasions, 5.5% dined for business purposes and 5% dined for other reasons.

The gender profile of the respondents was equally distributed amongst male (50%) and female (50%) diners. The results suggest that the majority of the respondents were between the ages of 20 and 29 years old (36.5%). Diners between the ages of 40 and 49 years comprised 22%, those between 30 and 39 years comprised 19%, diners 50 years and older comprised 14% and those that were 19 years or younger comprised 8.5%.

With regards to home languages, the English language comprised 50% of the total respondents, while the Afrikaans language comprised 31.5%. Together these two languages represented 81.5% of the total respondents. Respondents whose home language is an African language comprised 7% of respondents, whilst 11.5% of respondents spoke other languages.

### **Customers' perceptions of ambient factors, service quality and customer satisfaction**

Ambient factors comprise interior design elements, lighting and background music. The mean (M) rating for interior design elements (M= 3.66, SD= 0.50) is presented in Table 1 below. The highest rating for interior design elements is associated with „colours used to create a pleasant atmosphere“ (M= 3.93, SD= 0.72) and the lowest rating is associated with „visually appealing furniture“ (M= 3.41, SD= 0.82). The above-mentioned results suggest that the respondents found the colours in the restaurant to be the most attractive, whilst the furniture in the restaurant was the least appealing. The highest standard deviation was reported for „visually attractive pictures displayed (0.92) indicating that respondents had mixed reactions towards the pictures in the

restaurant. Overall, the interior design elements had a low standard deviation (0.50), indicating that most respondents had a high agreement with the statements.

The mean scores for „lighting“ (M= 3.65, SD= 0.80) suggests that respondents placed the variable between 3 = „neutral“ and 4 = „agree“, therefore finding the lighting in the restaurant to be pleasant. On the other hand, the mean values for „background music“ (M= 2.98, SD= 0.94) suggests that respondents found the music in the restaurant unpleasant as they placed the variable between 2 = „disagree“ and 3 = „neutral“.

The mean ratings for „service quality“ (M= 3.99, SD= 0.52) showed that the highest rating is associated with „food is served as ordered“ (M= 4.36, SD= 0.62), and the lowest rating is associated with „employees make me feel special“ (M= 3.56, SD= 0.84), suggesting that respondents found the service quality dimension, „reliability“ to be more favourable than the service quality dimension „empathy“. The reason for this result could be the location of the restaurant, as it is located on the outside of a busy shopping mall amongst office buildings, where customers would prefer a fast service due to time constraints.

The mean ratings for „customer satisfaction“ (M= 4.21, SD= 0.60) showed that the highest rating is associated with „satisfaction with the restaurant“ (M= 4.27, SD= 0.58), while the lowest rating is associated with „restaurant puts me in a good mood“ (M= 4.14, SD= 0.76). These results suggest a high satisfaction with the restaurant as the overall *mean score* for „customer satisfaction“ was 4.21, placing the variable between 4 = „agree“ and 5 = „strongly agree“.

The descriptive statistics in Table 1 indicate a small difference between the mean value of interior design elements (M= 3.66) and the mean value for lighting (M= 3.65) which suggests that respondents perceived a similar level of attractiveness for the interior design elements and the lighting of the restaurant. The background music mean result (M= 2.98) is lower than the mean value of interior design elements, which suggests that respondents found the background music to be of a lower attractiveness than the interior design elements in the restaurant.

The service quality mean (M= 3.99) as shown in Table 1, is slightly higher than the mean value of interior design elements (M= 3.66), which suggests that respondents perceived the service quality of the restaurant to be of a higher level than the attractiveness of the interior design elements. The above-mentioned results are presented in Table 1 below.

**Table 1: Factors influencing customers dining experience (n=200)**

<b>Influencing factors in a restaurant</b>	<i>Mean</i>	<i>Standard Deviation</i>
<b><u>Ambient Factors</u></b>	3.57	0.47
<b>Interior design elements</b>	3.66	0.50
Colours used to create a pleasant atmosphere	3.93	0.72
Interior décor and design of restaurant	3.82	0.73
Layout dining area makes it easy to move around	3.71	0.80
Visually attractive dining area	3.58	0.75
Visually attractive pictures displayed	3.51	0.92
Visually appealing furniture	3.41	0.82
<b><u>Background music</u></b>		
Background music is pleasant	2.98	0.94
<b><u>Lighting</u></b>		
Lighting used is pleasant	3.65	0.80
<b><u>Service quality</u></b>	3.99	0.52
Food is served as ordered	4.36	0.62
Service is quick	4.24	0.72
Consistent level of service	4.16	0.71
Employees make me feel comfortable	4.11	0.64
Employees are knowledgeable regarding the menu	4.10	0.71
Employees are well trained	4.07	0.68
Employees answer questions accurately	3.98	0.72
Extra effort is provided for special requests	3.88	0.81
Restaurant has my best interests at heart	3.70	0.78
Employees care about my individual needs	3.69	0.80
Employees make me feel special	3.56	0.84
<b><u>Customer satisfaction</u></b>	4.21	0.60
Satisfaction with the restaurant	4.27	0.58
Enjoyment experienced at restaurant	4.22	0.70
Restaurant puts me in a good mood	4.14	0.76

Note: M= mean (average), SD= standard deviation, scale values range from 1=strongly disagree to 5= strongly agree

### **Hypotheses testing**

The constructs – interior design elements, lighting and background music (all ambient factors) and service quality – were measured at an interval level of measurement, thus indicating that Pearson’s Product Moment Correlation test would be the most appropriate parametric test to use

if the assumptions were satisfied (Pallant, 2005:121-135). If the assumptions cannot be satisfied, the nonparametric test, Spearman's Rank Order Correlation, should be used (Pallant, 2005:101,123,126,130). Since the assumption of normality was not satisfied, but the assumption of linearity was satisfied, Spearman's Rank Order Correlation test was used to test hypotheses 1 and 2. The results of the Spearman's Rank Order Correlation are presented in Table 2.

**Table 2: Descriptive statistics and results of the Spearman's Rank Order Correlation used to conduct H<sub>1</sub> and H<sub>2</sub>**

Customer satisfaction	Hypotheses	
	Hypothesis 1	Hypothesis 2
<i>M</i> = 4.21 <i>SD</i> = 0.596	Ambient factors	Service quality
Correlation coefficient ( <i>r</i> )	0.41	0.62
p-value	p < 0.000	p < 0.001
N	200	200
<b>Results: Spearman's Rank Order Correlation Test</b>	$\alpha = 0.05$ p-value < 0.05	$\alpha = 0.05$ p-value < 0.05

Note: Correlation is significant at the 0.05 level of significance (one-tailed)

The results yielded from the hypothesis tests (as shown in Table 2 above) indicate a medium positive correlation ( $r_s=0.41$ ) between customer satisfaction and ambient factors, in terms of the guidelines offered by Cohen (in Field, 2009:170). Since the p-value is smaller than  $\alpha=0.05$ ,  $H_{1 (null)}$  is rejected in favour of  $H_{1 (alt)}$ . In  $H_1$  it is shown that interior design elements, music and lighting play an important role in ensuring customer satisfaction and that the attractiveness of the restaurant's interior and background music is an influencing factor in customers dining experiences. This supports the findings of Knutson and Patton (1995).

A large positive correlation ( $r_s = 0.62$ ) is indicated for customer satisfaction and service quality in terms of the guidelines offered by Cohen (in Field, 2009:170). Since  $p<0.001$ , the  $H_{2 (null)}$  must be rejected in favour of  $H_{2 (alt)}$ . This confirms the findings of previous studies that service quality has been viewed as one of the most important factors to consider within a restaurant environment (Chow *et al.*, 2007:698; Ladhari *et al.*, 2008:564

Hypothesis 3 was tested using the Williams's T2 statistic that tests whether two dependent correlations that share a common variable (customer satisfaction) differ. The difference between the two correlations was significant as  $p=0.000$ . Thus  $H_{3 (null)}$  is rejected in favour of  $H_{3 (alt)}$ .

The results of the hypothesis testing thus suggests that although there is a positive correlation between ambient factors and customer satisfaction, there is a stronger correlation between service quality and customer's satisfaction with the dining experience. This supports Ha and Jang (2010) remarks that even if a restaurant atmospherics are not satisfactory, providing excellent service could induce satisfaction.

## **MANAGERIAL IMPLICATIONS AND RECOMMENDATIONS**

The study indicates that a strong correlation exists between service quality and customer satisfaction, highlighting the key role of service quality as a means to ensure restaurant patron satisfaction. Service quality is one of the most important drivers of customer satisfaction within the dining experience. The results highlight that service quality is a means to ensure a competitive advantage. Lamb *et al.* (2010:22-27) suggest three forms of competitive advantage that restaurants can implement in order to stay ahead of their competitors, namely, service quality, well-trained employees and customer orientated personnel, which could influence customer's perceptions of the dining experience. This study also supports previous studies such as that conducted by Ladhari *et al.* (2008:564), in showing that service quality is one of the most important influencing factors for customer satisfaction with the dining experience. Managers should thus use their resources to ensure that their service quality is of a high standard and should regularly monitor customers' perceived service quality. Restaurant managers should also understand that food quality and food being served as ordered, play a very important role in the overall service perception as well as realising the impact of service personnel (employees). Thus the need for well-trained personnel that can provide the comfort and attention that patrons need, is essential.

Managers should also take note of the design and layout of the restaurant's interior, since design and layout have been shown to impact customers' satisfaction when dining. Customer's first

impressions of a restaurant are formed when they enter, as the interior design and layout are the first factors that customers observe before experiencing the restaurant's service quality (Ha & Jang, 2010:1). A pleasant restaurant environment will more likely inspire patrons to spend more time and money and lead to satisfaction with the dining experience.

## **LIMITATIONS AND FUTURE RESEARCH**

The study was conducted in a single context, coupled with the use of convenience sampling, which means that the interpretations of the data cannot necessarily be generalised to other contexts. Another limitation is that the omission of other tangibles (that fell outside the scope of this study) such as noise level and cleanliness of the dining area, could also have an impact on customer satisfaction.

Future research could possibly explore ambient factors individually to ascertain which colours are perceived as most pleasing when dining or which genre of music is most conducive to a pleasurable dining experience. In order to build on this particular study, future researchers could look at the ambient factors used for this study and expand on the factors used, by including elements such as street noise, cleanliness of the dining area, the cutlery and crockery used or comfort-level of the furniture.

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# **THE INFLUENCE OF SELECTED DEMOGRAPHIC VARIABLES ON YOUNG ADULTS' RELATIONSHIP INTENTIONS TOWARDS THEIR CELL PHONE NETWORK OPERATORS**

by

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## **Keywords:**

Relationship marketing; relationship intention; young adults; cell phone network operators

# **THE INFLUENCE OF SELECTED DEMOGRAPHIC VARIABLES ON YOUNG ADULTS' RELATIONSHIP INTENTIONS TOWARDS THEIR CELL PHONE NETWORK OPERATORS**

## **ABSTRACT**

Organisations are increasingly trying to build long-term relationships with existing customers in an effort to retain them, as customer retention could lead to greater profitability. However, not all customers want to form long-term relationships with organisations. Organisations should therefore identify and focus on those customers who display relationship intentions. The objective of this study was to explore relationship intention by determining whether the five constructs associated with relationship intention are valid and reliable to measure the relationship intentions of young adults towards South African cell phone network operators. The study furthermore explored the influence of selected demographic variables on respondents' relationship intentions. Non-probability convenience sampling was used to collect data from 315 respondents. Results indicate that the five constructs used to measure relationship intention are valid and reliable to measure the relationship intentions of young adults towards cell phone network operators. No differences were found between selected demographic variables and respondents' relationship intentions.

## **INTRODUCTION**

Relationship marketing is a favoured marketing approach as it is believed that by building long-term relationships with customers, organisations could expect greater profitability since satisfied long-term customers are more likely to spend on additional services and spread favourable word-of-mouth communication than short-term customers are likely to do (Liang & Wang, 2006: 124). Organisations should therefore focus their relationship marketing efforts on customers with a relationship intention (Kumar, Bohling & Ladda, 2003: 669) instead of assuming that relationships can be formed with all customers, as not all customers want to form long-term relationships with organisations (Odekerken-Schröder, De Wulf & Schumacher, 2003: 178). Organisations should therefore aim to identify those customers who want to form long-term relationships with them. This, according to Kumar *et al.* (2003: 667,669-70), can be done by determining customers' relationship intentions (i.e. the intention

of customers to build long-term relationships with organisations). Kumar *et al.* (2003: 668) continue by suggesting that customers' relationship intentions can be determined by measuring five constructs, namely involvement, expectations, forgiveness, feedback and fear of relationship loss.

From a relationship marketing perspective, significant potential value resides within the young adults segment as they are not only becoming increasingly important in today's market arena due to their numbers and buying power (Ling, 2008: 890), they also represent the future core customers of organisations (Ferguson & Hlavinka, 2008: 116, 117, 126). Also, by identifying and building relationships through relationship marketing with young adults with a high relationship intention, organisations will in all probability retain these customers once they gain more disposable income when they start to work or through career advancements.

The cellular industry in South Africa, characterised as one of the fastest growing cell phone using countries in the world (Rainbow Nation, 2011), can benefit from building relationships with young adults. Cellular network operators should consider targeting young adults in particular for a number of reasons. Firstly, this consumer group is regarded as the most technologically advanced segment of the population (Serantes, 2009: 247). Secondly, young adults put great effort into their decisions when selecting a service provider (such as a cell phone network operator) of a service they view as important, use heavily and are well acquainted with (Belch, Krentler & Willis-Flurry, 2005: 570). Thirdly, young adults almost literally live with their cell phones as they rely on their cell phones to communicate (Moroz, 2008: 26; Andelman, 2007: 48). Fourthly, young adults are the largest group using cell phone text messaging (Schiffman, Kanuk & Wisenbult, 2010: 410). Finally, when asked in the South African 2011 Generation Next brand survey which things young adults cannot live without, they first listed their cell phones, followed by their families, money and their parents (Doke, 2011). These reasons underline the importance of this segment to the cellular industry.

The purpose of this study is to determine the validity and reliability of Kumar *et al.*'s (2003: 670) proposed relationship intention constructs to measure young adults' relationship intentions towards their cell phone network operators, to explore why young adults initially chose their cell phone network operators, and to determine whether certain demographic differences of young adults influence their relationship intentions towards cell phone network operators.

## **THEORETICAL BACKGROUND**

### **Relationship marketing**

One of the key principles of relationship marketing is an emphasis on the retention of profitable customers through maximising the lifetime-value of customer relationships (Payne, 2006: 9). Wilson, Zeithaml, Bitner and Gremler (2008: 152-156) continue by suggesting that the benefits of relationship marketing for the organisation are lodged in customer retention, which results in lower business costs, an increase in customer spending, referrals and price-premiums.

Some customers may be profitable as transactional customers even if they are not relationship customers (Lovelock & Wirtz, 2007: 364). For this reason, organisations may choose to apply dual strategies for both transactional and relationship marketing where specific market segments are targeted by means of these respective strategies. Tuominen (2007: 182), Liang and Wang (2006: 139-140) and Odekerken-Schröder *et al.* (2003: 178) state that valuable resources are wasted if organisations apply relationship marketing strategies to customers who do not want a relationship with the organisation. Only those customers who are receptive to building a relationship with the organisation should therefore be targeted through relationship marketing (Liang & Wang, 2006: 124).

### **Relationship intention**

Kumar *et al.* (2003: 667,669) define relationship intention as the customer's intention to build a relationship with an organisation when buying a product or making use of a service provided by the organisation. The five constructs proposed by Kumar *et al.* (2003: 670) to measure customers' relationship intentions, namely involvement, expectations, forgiveness, feedback and fear of relationship loss will subsequently be briefly explored.

### ***Involvement***

Kumar *et al.* (2003: 670) state that involvement in terms of relationship intention should be defined as the degree to which customers would willingly engage in relationship activities in the absence of obligation or coercion. Baker, Cronin and Hopkins (2009: 116) suggest that higher involvement means that customers make a greater cognitive investment in the relationship with a specific organisation as customers themselves decide whether they want to be involved or not (Baker *et al.*, 2009: 117).

Ruiz, Castro and Armario (2007: 1103) found customer involvement to be especially relevant in the relationship between customers and cell phone network operators since, when customers are more involved with the service, have accumulated more experience with their service operator and enjoy the relational benefits from their service relationship, their value perceptions will be higher. Ha (2004: 193, 200-201) remarks that when a customer builds a solid foundation with the organisation, the customer becomes involved with the organisation. This implies that there is a correlation between involvement and relationship marketing effectiveness. Involvement is thus instrumental in developing relationships with customers. According to Seiders, Voss, Grewal and Godfrey (2005: 39), organisations should identify highly involved customers in order to build long-term relationships with them.

### ***Expectations***

Liang and Wang (2006: 120-121) are of the opinion that the investment of time, effort and other irrecoverable resources in a relationship is the motivation for different parties to sustain the relationship and develop expectations for the relationship. For this reason, Kumar *et al.* (2003: 670) state that customer expectations are automatically developed when purchasing a product or service.

Lovelock and Wirtz (2007: 47-49) identified four components of customer expectations relating to service quality and satisfaction, implying that the customer is concerned with the organisation and has a relationship intention. Desired service levels are viewed as a combination between what customers believe the organisation can and should deliver to satisfy their personal needs; adequate service levels are the minimum service levels that customers will accept without being dissatisfied; predicted service levels influence these adequate service levels; and the zone of tolerance is the extent of service variation that customers are willing to accept.

Higher customer expectations lead to greater customer relationship intention (Kumar *et al.*, 2003: 670). Such high expectations and the fact that customers are concerned with the organisation show a high relationship intention (Kumar *et al.*, 2003: 670). Organisations should therefore aim to maintain a balance between the rational and emotional expectations of customers by meeting rational expectations and ensuring a positive emotional experience (Gamble, Stone, Woodcock & Foss, 2006: 248).



### ***Forgiveness***

Kumar *et al.* (2003: 670) posit that customers with higher expectations, who are willing to forgive a service failure and accept the service recovery of organisations, will have higher relationship intentions. This is because customers with the intention of building a relationship with an organisation are more willing to continue support of the organisation, even when expectations are not always met.

According to Egan (2004: 140-141), customers react differently to service failures and they will see the service failure in a holistic fashion – in terms of all their encounters during the relationship with the organisation. Research indicates that a high relationship intention will make the customer more tolerant of service failures and reduce the likelihood of the customer defecting after experiencing a service failure (Kumar *et al.*, 2003: 670). However, Lovelock and Wirtz (2007: 395-396) caution that customers with a high relationship intention may forgive a first service failure, but tend to become disillusioned when failures re-occur.

### ***Feedback***

Feedback includes customer complaints, suggestions, compliments and enquiries (Lovelock & Wirtz, 2007: 410, 412). Lovelock and Wirtz (2007: 406) and Egan (2004: 112-113) maintain that the use of customer feedback is twofold. Firstly, through feedback, organisations can determine which customer needs and wants should be satisfied. Secondly, the actual performance of the organisation in terms of service quality along with areas of improvement can be identified through customer feedback. Kumar *et al.* (2003: 670) state that customers who believe in giving both positive and negative feedback to the organisation have a higher relationship intention. Conversely, customers who do not expect a reward when providing feedback have a higher level of relationship intention.

Kumar *et al.* (2003: 670) regard customers' concerns and involvement with the organisation to be portrayed through their belief that they can, through their feedback in the form of complaining, be involved in bettering organisational performance. Customers portraying this behaviour indicate high relationship intention.

### ***Fear of relationship loss***

Steyn, Mostert and De Jager (2008: 144) propound that in the case of services, the transactions between organisations and their customers can be viewed as social encounters.

The social bonding that takes place between organisations and customers ensures the personalisation and customisation of the relationship (Lamb, Hair, McDaniel, Boshoff & Terblanche, 2008: 12). For this reason, customers will take switching barriers (also referred to as bonds), non-monetary costs and risks associated with ending the relationship with the organisation into consideration, which can all contribute to fear of losing the relationship.

Stone and Dickey (2002: 480) contend that in the utility market, such as telecommunications, customers' propensity to switch between organisations is reduced through satisfaction with the brand, satisfaction with customer service (every interaction with the organisation and its staff) and satisfaction with the specific category of service. In other words, customers will fear losing their relationship with the staff, the brand and the organisation and switching behaviour will thus be reduced by positive experiences (Kumar *et al.*, 2003: 670).

## **PROBLEM STATEMENT AND RESEARCH OBJECTIVES**

A maintained relationship between young adults and cell phone network operators will ultimately result in higher profitability for these organisations, especially if young adults were to remain with cell phone network operators over a long period of time. Also, by identifying and building relationships through relationship marketing with young adults with a high relationship intention, cell phone network operators will in all probability retain these customers once they gain more disposable income when they start to work or through career advancements. For this reason, those young adults with a relationship intention should be identified by cell phone network operators.

No studies have been done in South Africa on the relationship intention of customers in the cellular industry, and specifically testing the validity and reliability of the five relationship intention constructs proposed by Kumar *et al.* (2003: 670) towards cell phone network operators. The influence of demographic variables on relationship intention has also not been explored in this environment.

The purpose of this study is therefore to explore the relationship intention constructs proposed by Kumar *et al.* (2003: 670), together with the influence of selected demographic variables on young adults' relationship intentions towards cell phone network operators.

The following objectives were accordingly set for the study:

- To determine why respondents initially chose their respective cell phone network operators;
- To determine whether the five relationship intention constructs proposed by Kumar *et al.* (2003: 670) are valid and reliable to measure the relationship intentions of young adults in the cellular industry;
- To investigate whether certain demographic differences (gender, age and responsibility of payment of cellular expenses) influence young adults' relationship intentions towards cell phone network operators.

## **METHODOLOGY**

### **Sampling**

The population of this study comprised young adults between the ages of 18 and 25 years studying at a higher education institution (Thompson & Thompson, 2009: 1281, 1283; Callen-Marchione & Ownbey, 2008: 369; Rahman, Zhu & Liu, 2008: 221) in South Africa. Not only are students an important market segment, but Corder, Phillips and Tybout (in Laroche, Ueltschy, Abe, Cleveland & Yannopoulos, 2004: 63) argue that university students can be appropriate as they are more likely to be homogenous on certain demographic features and they are familiar with the product or service. Non-probability convenience sampling was used to collect data from 315 respondents from this study population.

### **Research design and instrument**

The study followed a three-stage design. Firstly, qualitative research in the form of focus groups was used to collect background knowledge on the cell phone network operators' features and benefits that young adults view as important and why network operators were chosen. The information gathered from the focus groups was used to construct a part of the questionnaire used in the final stage of this study.

Secondly, the questionnaire to measure relationship intention designed by Kumar *et al.* (2003: 675-676) and adapted by De Jager (2006: 166) and Delpont (2009: 91-101) was revised. Questions were changed with a view to improve the reliability and validity of the research instrument as previous studies measuring relationship intention all suffered from low Cronbach alpha values (Delpont, 2009: 31; De Jager, 2006: 18). A five-point Likert-type

scale, where 1 = no, definitely not, 2 = no, 3 = neutral, 4 = yes and 5 = yes, definitely, was used. A pilot study of the revised measure of relationship intention was then conducted with 202 young adults from the target population to test the validity and reliability to measure the relationship intentions of young adults.

Lastly, this improved measure of relationship intention was used in the final questionnaire along with the information gathered on cell phone network operators (constructed after the focus groups in the first stage of the study). The final questionnaire was fielded among 315 respondents from the study population.

### **Data analysis**

Data was analysed by first performing exploratory factor analysis (EFA) to identify (during the pilot study) and then to validate by means of confirmatory factor analysis (CFA) (during the main study) the five constructs proposed by Kumar *et al.* (2003: 675-676) to measure respondents' relationship intentions. For this study, the reliability statistic calculated was the Cronbach's alpha value. Hair, Anderson, Tatham and Black (1998: 118) explain that when the Cronbach's alpha value is calculated to assess the reliability of a measurement set, a value of 1 indicates the highest possible level of reliability, while a value of 0.70 and higher is considered reliable. T-tests and ANOVAs were also performed to determine statistical differences between means. Since the researchers relied on a confidence level of 95%, a p-value of  $\leq 0.05$  would be regarded as indicative of statistical significance (Zikmund & Babin, 2010: 542). As a convenience sampling method was used, it was decided to also determine the practical significance of the findings. It was therefore decided, in addition to determining statistical significance, to also determine practical significance as practical significance provides an indication of the strength of the significance. According to Sprinthall (2003: 178) and Steyn (1999: 3), the practical significance of the difference between two means is determined by Cohen's effect sizes, symbolised as d-values. Steyn (1999: 12) stipulates the following formula to determine effect sizes:

$$d = \frac{|\bar{x}_1 - \bar{x}_2|}{s_{\max}}$$

Where:

- $d$  = effect size;
- $\bar{x}_1 - \bar{x}_2$  is the difference between means of two compared groups; and
- $S_{\max}$  is the maximum standard deviation of the two compared groups.

Effect sizes were accordingly interpreted as (Cohen, 1988: 25-26):

- $d \approx 0.2$  indicating a small effect with no practical significance;
- $d \approx 0.5$  indicating a moderate effect; and
- $d \approx 0.8$  or larger, indicating a practically significant effect.

## RESULTS

### Sample profile

A total of 315 respondents completed the final questionnaire. The sample mainly consisted of young adults between the ages of 18 and younger than 24 years old (97%), with only 3% of respondents being older than 24 years. More females (61%) participated in the study than males (39%). The monthly cell phone expenses for most respondents were between R101 and R250 (51.5%). The majority of respondents indicated that their parents paid their cellular expenses (71.7%), while the remaining respondents paid their own cellular expenses (28.3%). The distribution between the different cell phone network operators were: Vodacom (37%), MTN (32%) and Cell C (31%), while the majority of all respondents (77.8%) have contracts with their cell phone network operators [Vodacom (78%), MTN (74%) and Cell C (81%)].

### Reasons for choosing cell phone network operators

The first objective set for the study was to determine why respondents initially chose their respective cell phone network operators. The questionnaire listed a number of options compiled from the focus group discussions that respondents could select (respondents could choose multiple options). Table 1 provides the frequency distribution for results for this question. The results for the entire sample as well as responses obtained for the different cell phone network operators are presented.

**Table 1: Why respondents initially chose their cell phone network operator**

Reason	Total n=315		Vodacom n=115		MTN n=101		Cell C n=99	
	F	%	F	%	F	%	F	%
Low cost	80	25.4	21	18.3	13	12.9	46	46.5
Quality of connection	45	14.3	30	26.1	12	11.9	3	3.0
Best package	88	27.9	28	24.3	32	31.7	28	28.3
Good coverage	40	12.7	20	17.4	14	13.9	6	6.1
Cheapest contract	51	16.2	6	5.2	14	13.9	31	31.3
Reputation for offering good service	62	19.7	44	38.3	14	13.9	4	4.0
CNO had the handset I wanted	24	7.6	6	5.2	13	12.9	5	5.1
My parents chose CNO	113	35.9	43	37.4	48	47.5	22	22.2

CNO=Cell Phone Network Operator

From Table 1 it is apparent that most respondents (35.9%) indicated the choice as to which cell phone network operator to use was in fact made by their parents, and not themselves. Other prominent reasons for choosing a cellular network operator included that the cell phone network operator had the best package (27.9%) or offered a low cost (25.4%).

From Table 1 it can furthermore be seen that the majority of the respondents using Vodacom initially chose this operator because of their reputation for offering good service (38.3%), followed by their parents choosing this cell phone network operator (37.4%) and the quality of connection (26.1%). The majority of respondents using MTN indicated that their parents chose the network operator (47.5%) or due to their view that MTN offers the best packages (31.7%). In contrast, the majority of the respondents using Cell C initially chose their cell phone network operator for their low cost (46.5%) or because they were perceived to offer the cheapest contracts (31.3%) or best packages (28.3%).

### **Validity and reliability of relationship intention constructs**

The second objective of this study was to determine whether the five relationship intention constructs proposed by Kumar *et al.* (2003: 670) are valid and reliable to measure the relationship intentions of young adults.

An exploratory factor analysis was done on the relationship intention measure from the pilot study. Table 2 presents the items and abbreviated statements used in the adapted questionnaire for the pilot study. The factors are abbreviated by “F” followed by the factor’s number. The rotated factor pattern is followed by a brief discussion of each factor.

**Table 2: Rotated factor pattern for relationship intention during pilot study**

Item	Abbreviated statements	Factor loadings				
		F1	F2	F3	F4	F5
21	High expectations	.51				
22	Expect service to be better than other CNO's service	.74				
23	Expect to offer value for money	.87				
24	Expect to offer better value for money than other CNOs	.85				
25	Expect latest cellular technology	.67				
26	Expect low prices	.78				
11	Forgive if quality of service is below standard		.69			
12	Forgive if quality of service is below standard of other CNOs		.80			
13	Forgive bad service		.88			
14	Still support even if experienced bad service		.75			
15	Forgive if more expensive		.56			
6	Afraid to lose privileges			.85		
7	Afraid to lose services			.85		
8	Afraid to lose identification			.79		
9	Afraid to lose relationship			.76		
10	Emotional stress when switching from CNO			.56		
16	Feedback on bad service				.85	
17	Feedback on better than expected service				.84	
18	Feedback when service meets expectations				.82	
19	Provide feedback when restricted				.61	
20	Provide feedback to improve service				.59	
1	Proud customer					.87
2	Proud of name or advertising					.80
3	Feeling of satisfaction					.72
4	Care about image					.59
5	Recommended CNO					.48
<b>Cronbach alpha values</b>		.82	.86	.81	.83	.87

CNO = Cell Phone Network Operator

**Factor 1**

The Cronbach alpha value for factor 1 is 0.82 and items 21, 22, 23, 24, 25 and 26 were retained. Factor 1 concerns the expectations respondents have of their cell phone network operators through the items loading onto factor 1, determining if customers have high expectations of, and expect their cell phone network operators to provide better service than the other cell phone network operators, to offer value for money and more value for money

than other cell phone network operators along with the latest cellular technology and low prices. After considering the construct proposed by Kumar *et al.* (2003: 670), factor 1 is labelled as **Expectations**.

When the confirmatory factor analysis (CFA) was done in the main survey of 315 respondents using these items, it was reconfirmed that these items form one factor, which explained 57.43% of the variance in these items. The measure of sampling adequacy (MSA) was 0.81. The communalities varied between 0.68 and 0.47. The construct validity of this factor was thus confirmed.

### ***Factor 2***

The Cronbach alpha value for factor 2 is 0.86 and items 11, 12, 13, 14 and 15 are retained. Factor 2 concerns the forgiveness respondents feel towards their cell phone network operators through measuring their forgiveness for low quality (be it below the cell phone network operator's own standards or in comparison to other cell phone network operators), bad service and being more expensive with the items loading onto factor 2. After considering the construct proposed by Kumar *et al.* (2003: 670), factor 2 is labelled as **Forgiveness**.

The CFA confirmed that these items form one factor, which explained 59.42% of the variance in these items. The MSA was 0.79. The communalities varied between 0.78 and 0.32. The construct validity of this factor was thus confirmed.

### ***Factor 3***

The Cronbach alpha value for factor 3 is 0.81 and items 6, 7, 8, 9 and 10 are retained. Factor 3 concerns the fear respondents have of losing their relationship by the items loading onto factor 3 measuring their fear of losing special privileges and services as well as identification and relationship with their cell phone network operator. After considering the construct proposed by Kumar *et al.* (2003: 670), factor 3 is labelled as **Fear of relationship loss**.

In the CFA it was confirmed that these items form one factor, which explained 72.53% of the variance in these items. The MSA was 0.75. The communalities varied between 0.78 and 0.66. The construct validity of this factor was thus confirmed.



#### ***Factor 4***

The Cronbach alpha value for factor 4 is 0.83 and items 16, 17, 18, 19 and 20 are retained. Factor 4 concerns the feedback respondents give to their cell phone network operators as items loading onto factor 4 measure whether respondents will provide feedback on poor service, when service exceeds or meets expectations, when feedback is restricted and to improve the service of the cell phone network operator. After considering the construct proposed by Kumar *et al.* (2003: 670), factor 4 is labelled as **Feedback**.

The CFA confirmed that these items form one factor, which explained 61.64% of the variance in these items. The MSA was 0.87. The communalities varied between 0.79 and 0.41. The construct validity of this factor was thus confirmed.

#### ***Factor 5***

The Cronbach alpha value for factor 5 is 0.87 and items 1, 2, 3, 4 and 5 are retained. Factor 5 concerns the involvement of respondents with their cell phone network operators as pride in being a customer as well as the name and advertising of the cell phone network operator, respondents' feeling of satisfaction, concern about the image of the cell phone network operator and whether the respondents have recommended their cell phone network operator to others, are all measured with the items loading onto factor 5. After considering the construct proposed by Kumar *et al.* (2003: 670), factor 5 is labelled as **Involvement**.

When a confirmatory factor analysis was done using these items, it was confirmed that these items form one factor, which explained 63.72% of the variance in these items. The MSA was 0.83. The communalities varied between 0.72 and 0.51. The construct validity of this factor was thus confirmed.

The confirmatory factor analysis indicated that the five factors identified through the exploratory factor analysis in the pilot study of the relationship intention measure, namely Expectations, Forgiveness, Fear of relationship loss, Feedback and Involvement are valid to measure respondents' relationship intention. All the Cronbach alpha values showed values higher than 0.80, indicating a high level of reliability (Hair *et al.*, 1998: 118) between items in the measuring instrument for relationship intention.

### Demographic differences and relationship intention

The third objective set for the study was to investigate whether certain demographic differences of young adults could be considered an influence on their relationship intention towards cell phone network operators. As previously stated, three demographic differences were explored, namely gender, age and responsibility of payment of cellular expenses.

#### Gender

To determine if statistically significant differences exist between *male* and *female* respondents in terms of the relationship intention factors, independent t-tests were performed. Table 3 shows the results from t-tests to determine the difference between the means for male and female respondents in terms of their relationship intentions. Table 3 lists the means, standard deviations (SD), p-values and d-values (effect sizes) when comparing these two respondent groups for the five factors used to measure relationship intention.

**Table 3: Relationship intention scores for male and female respondents**

Factors	Group	n	Mean	SD	p-value*	d-value
Factor 1: Expectations	Male	122	4.13	0.73	0.3426	0.11
	Female	193	4.21	0.70		
Factor 2: Forgiveness	Male	122	2.62	0.87	0.9482	0.01
	Female	193	2.63	0.85		
Factor 3: Fear of relationship loss	Male	122	2.52	1.01	0.0429*	0.22
	Female	193	2.76	1.09		
Factor 4: Feedback	Male	122	3.34	0.92	0.3085	0.12
	Female	193	3.44	0.89		
Factor 5: Involvement	Male	122	3.34	0.91	0.0034*	0.33
	Female	193	3.64	0.83		

From Table 3 it can be seen that initial analysis found statistically significant differences for two relationship intention factors, namely factor 3 (Fear of relationship loss) ( $p = 0.0429$ ) and factor 5 (Involvement) ( $p = 0.0034$ ). However, the calculated effect sizes for both factor 3 (Fear of relationship loss) ( $d = 0.22$ ) and factor 5 (Involvement) ( $d = 0.33$ ) were small and therefore not of practical significance. It could therefore be concluded that male and female respondents do not view the five factors comprising relationship intention differently.

#### Age

In order to determine if statistically significant differences exist between respondents from different *age groups* with regard to their relationship intention towards their cell phone

network operators, one-way ANOVAs were performed. No statistically significant differences, and therefore no practically significant differences, were found for any of the five factors in terms of respondents' age (the calculated d-values are shown in Table A1 in Annexure 1). It could therefore be concluded that respondents' ages do not influence their view of the five factors comprising relationship intention.

### ***Responsibility of payment***

To determine if statistically significant differences exist between respondents in terms of *who pays for their cellular expenses* (either respondents themselves or their parents) in terms of the relationship intention factors, independent t-tests were performed. Table 4 lists the means, standard deviations (SD), p-values and d-values (effect sizes) when comparing these two respondent groups for the five factors used to measure relationship intention.

**Table 4: Relationship intention scores for responsibility of payment**

<b>Factors</b>	<b>Group</b>	<b>n</b>	<b>Mean</b>	<b>SD</b>	<b>p-value*</b>	<b>d-value</b>
<b>Factor 1: Expectations</b>	Parents	226	4.14	0.71	0.1031	0.21
	Self	89	4.28	0.71		
<b>Factor 2: Forgiveness</b>	Parents	226	2.61	0.84	0.4787	0.09
	Self	89	2.69	0.91		
<b>Factor 3: Fear of relationship loss</b>	Parents	226	2.71	1.02	0.2308	0.15
	Self	89	2.54	1.17		
<b>Factor 4: Feedback</b>	Parents	226	3.34	0.89	0.0668	0.23
	Self	89	3.55	0.92		
<b>Factor 5: Involvement</b>	Parents	226	3.47	0.88	0.0901	0.21
	Self	89	3.65	0.84		

From Table 4 it can be seen that no statistically significant differences, and therefore no practically significant differences, were found for any of the five factors in terms of who pays respondents' cellular expenses. It could therefore be concluded that respondents whose parents pay their cellular expenses and respondents who pay their own cellular expenses do not view the five factors comprising relationship intention differently.

## **CONCLUSIONS AND RECOMMENDATIONS**

The **first objective** of this study was to determine the reasons why young adults initially chose their cell phone network operator. It was determined that the initial reasons for selecting a cell phone network operator were that most respondents' parents selected the cell phone

network operators, followed by the perception that the cell phone network operator offered the best package or lowest cost.

Taking the above into consideration, it can be concluded that most young adults' parents still have an influence on their product or service usage as respondents' parents not only initially chose the cell phone network operators, but also pay the monthly cellular expenses for more than two thirds of respondents. It could, however, be argued that the choices of the cell phone network operator by parents were made while the young adult respondents who participated in this study were much younger, even children. This could therefore possibly explain why these young adult respondents' parents chose the cell phone network operator and not themselves. It is thus **recommended** that cell phone network operators should target parents with a view to gain entry into the young adult market, even if this does imply targeting parents with young children. Also, cost may not be that important as what may have been anticipated, arguably because most parents paid respondents' cellular expenses. Therefore, cell phone network operators should focus their marketing strategies on parents to show value for money to get them to choose the cell phone network operator. Those respondents who pay their own cellular expenses should obviously be targeted with a different marketing strategy than the rest of the young adults.

The **second objective** set for the study was to establish whether the five constructs proposed by Kumar *et al.* (2003: 670) are valid and reliable to measure the relationship intentions of young South African adults towards their cell phone network operators. The findings from this study showed that the constructs were both valid and reliable. It is **recommended** that cell phone network operators segment their customers in terms of relationship intention (high, medium or low) and identify the factors that contribute most to high relationship intention. Likewise, factors that can cause a low relationship intention should also be identified and pro-actively managed to ultimately contribute to high relationship intentions.

The **third objective** of this study was to determine whether there are differences between young adults with regard to their demographic differences (gender, age and responsibility of payment of cellular expenses). Concerning gender, the study of Steyn *et al.* (2008: 153) found a difference between male and female respondents concerning one of the constructs of relationship intention, namely Expectations, in the short-term insurance industry. The current study could not support this finding. Concerning age, previous research by Steyn *et al.* (2008:

153) in the short-term insurance industry found differences between customers of different ages with regard to all five the constructs used to measure relationship intention. The current study found no differences in terms of age, arguably because young adults can be considered as one specific age group (Thompson & Thompson, 2009: 1281, 1283; Callen-Marchione & Ownbey, 2008: 369; Rahman *et al.*, 2008: 221). Concerning the responsibility for paying cellular expenses, more than two thirds of respondents' parents pay their cellular expenses. An interesting finding from this study was that respondents whose parents pay their cellular expenses and respondents who pay their own cellular expenses did not view the five factors comprising relationship intention differently.

In summary of objective three, this study found no differences relating to young adults' demographic information with regard to the five factors comprising relationship intention. Because young adults have similar needs and drives and because the choice of cell phone network operator is of great importance to them (Bates, 2009: 108; Andelman, 2007: 48), cell phone network operators should view young adults as one target market. It is **recommended** that cell phone network operators should view young adults as a distinct target market. It is furthermore recommended that cell phone network operators try to categorise young adults according to their relationship intentions as such categorisation may show differences within this consumer segment, which could be pursued by different marketing strategies.

## **LIMITATIONS AND DIRECTIONS FOR FUTURE RESEARCH**

The results of this study are limited to the service environment of cell phone network operators and results cannot be generalised to all service settings. Furthermore, use was made of non-probability sampling in the form of a relatively small convenience sample, and consequently results are not representative of the entire population.

Future research can examine the influence of parents on young adults' product and service choices and a probability sample is suggested with a wider geographical area and under other industries as well. Future research should also consider what, if any, influence children or young adults have on their parents' choice of a cell phone network operator that would be used by the child or young adult.

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## Annexure 1

**Table A1: Effect sizes of relationship intentions for different age groups**

Factors	Mean	SD	n	Comparisons significant at the 0.05 level	Group	d-value						
						1*	2*	3*	4*	5*	6*	7*
<b>Factor 1: Expectations</b>	4.12	0.71	30	None	1*		0.24	0.02	0.21	0.06	0.02	0.06
	4.29	0.58	64		2*	0.24		0.23	0.02	0.31	0.21	0.21
	4.10	0.82	63		3*	0.02	0.23		0.21	0.03	0.00	0.08
	4.27	0.69	68		4*	0.21	0.02	0.21		0.28	0.19	0.15
	4.08	0.68	55		5*	0.06	0.31	0.03	0.28		0.02	0.13
	4.10	0.90	25		6*	0.02	0.21	0.00	0.19	0.02		0.07
	4.17	0.46	10		7*	0.06	0.21	0.08	0.15	0.13	0.07	
<b>Factor 2: Forgiveness</b>	2.77	0.85	30	None	1*		0.08	0.33	0.23	0.05	0.30	0.78
	2.84	0.88	64		2*	0.08		0.40	0.30	0.13	0.37	0.84
	2.46	0.93	63		3*	0.33	0.40		0.12	0.28	0.05	0.39
	2.57	0.83	68		4*	0.23	0.30	0.12		0.18	0.07	0.56
	2.72	0.77	55		5*	0.05	0.13	0.28	0.18		0.25	0.81
	2.51	0.83	25		6*	0.30	0.37	0.05	0.07	0.25		0.49
	2.10	0.70	10		7*	0.78	0.84	0.39	0.56	0.81	0.49	
<b>Factor 3: Fear or relationship loss</b>	2.89	1.02	30	None	1*		0.04	0.04	0.37	0.38	0.43	0.85
	2.85	0.99	64		2*	0.04		0.07	0.33	0.34	0.39	0.84
	2.93	1.04	63		3*	0.04	0.07		0.40	0.41	0.46	0.87
	2.48	1.12	68		4*	0.37	0.33	0.40		0.00	0.02	0.41
	2.48	1.09	55		5*	0.38	0.34	0.41	0.00		0.02	0.41
	2.45	1.02	25		6*	0.43	0.39	0.46	0.02	0.02		0.42
	2.03	0.88	10		7*	0.85	0.84	0.87	0.41	0.41	0.42	
<b>Factor 4: Feedback</b>	3.52	0.54	30	None	1*		0.25	0.24	0.20	0.19	0.46	0.05
	3.70	0.73	64		2*	0.25		0.44	0.39	0.36	0.67	0.18
	3.30	0.91	63		3*	0.24	0.44		0.02	0.01	0.21	0.28
	3.32	0.99	68		4*	0.20	0.39	0.02		0.00	0.21	0.24
	3.31	1.07	55		5*	0.19	0.36	0.01	0.00		0.19	0.23
	3.11	0.88	25		6*	0.46	0.67	0.21	0.21	0.19		0.51
	3.56	0.79	10		7*	0.05	0.18	0.28	0.24	0.23	0.51	

Factors	Mean	SD	n	Comparisons significant at the 0.05 level	Group	d-value						
						1*	2*	3*	4*	5*	6*	7*
<b>Factor 5: Involvement</b>	3.75	0.82	30	None	1*		0.04	0.27	0.37	0.31	0.46	0.63
	3.72	0.74	64		2*	0.04		0.24	0.34	0.27	0.42	0.59
	3.51	0.88	63		3*	0.27	0.24		0.13	0.01	0.20	0.38
	3.39	0.99	68		4*	0.37	0.34	0.13		0.12	0.05	0.25
	3.50	0.81	55		5*	0.31	0.27	0.01	0.12		0.18	0.37
	3.34	0.91	25		6*	0.46	0.42	0.20	0.05	0.18		0.20
	3.14	0.98	10		7*	0.63	0.59	0.38	0.25	0.37	0.20	

### Age categories\*

1 = 18 but younger than 19

2 = 19 but younger than 20

3 = 20 but younger than 21

4 = 21 but younger than 22

5 = 22 but younger than 23

6 = 23 but younger than 24

7 = 24 years or older

# THE RELATIONSHIP BETWEEN FILM AND STUDENT'S HOLIDAY PREFERENCES

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## THE RELATIONSHIP BETWEEN FILM AND STUDENTS' HOLIDAY PREFERENCES

### ABSTRACT

The student market is a large and growing segment of the tourism industry that contributes to the tourism economy at large. Despite its profitability, the tourism industry often does not target this market, and little is known about the characteristics, holiday preferences and travel motives of the student market.

This paper looks at the relationship between film and students' holiday preferences, using tourism management students of the North-West University for the study. Students' travel behaviour is of great interest to the travel and tourism industry, as students can play a major role in developing tourism products of film-induced destinations.

A self-administered survey was used to collect data from 221 tourism management students. Most of the students were female, and the greatest number of questionnaires was completed by first-year students. A Spearman's correlation coefficient was compiled from the data. The study found a correlation between the influence of films on students' holiday preferences and students' holiday preferences. Two clusters were identified: casual film tourists and novice film tourists. A cluster analysis revealed that casual film tourists had lower mean scores than novice film tourists on the factors: *Nostalgia of film*, *Unique holiday experience*, *Personal connection*, *Self-actualisation* and *Scenery at film location*.

This research is original, as it investigates the relationship between a certain film and students' holiday preferences, and contributes to the marketing, management and tourism literature.

**Keywords:** Students, Film-induced tourism, Marketing, Destinations, Management

## INTRODUCTION

The student travel market is a very important segment of the travel industry, especially as students impose light demand on cultural, social and environmental resources and thus contribute to the preservation of the local environment. Young tourists often purchase locally produced goods and spend less per day than the average tourist, therefore reducing leakages from the economy (Reisinger and Mavondo, 2004:44). By visiting film-induced places, students play a major role in the development of a destination's tourism product (World Tourism Organization, 1991). The potential for future development of student tourism is considerable, as students are relatively free to travel and motivated to travel during the semester breaks. Many students also do not have the financial and moral responsibilities of raising a family. They represent a distinct market with specific needs and preferences (Resinger and Mavondo, 2004:45; Chadee and Cutler, 1996:78).

Tourism has long been recognised as an agent of change and perceived generally along a positive-negative continuum. Such change is usually noticeable in the socio-cultural, economic and environmental elements of a tourism destination. The media has become a major vehicle of awareness pertaining to destinations. Popular media, such as film, literature and music, has the power to create, alter and reinforce specific destination images. A new way of marketing tourism is through film-induced tourism, as marketing through a film may generate interest in tourism products and destinations (Tooke and Baker, 1996; Riley and Van Doren, 1992; Riley, 1994; Iwashita, 2003; Olsberg, 2007; Hudson and Ritchie, 2006; Croy and Walker, 2004; Connell, 2004; Butler, 1990; Busby and Klug, 2010). Major movies, by providing images of places and objects, may encourage people to travel to locations where the motion pictures were filmed (Riley, Baker and Van Doren, 1998). Although motion picture films are not produced with the prime intent of encouraging people to visit locations, this medium can enhance the awareness, appeal and profitability of destinations (Beeton, 2001; Beeton 2005; Couldry, 1998, Croy and Walker, 2004).

Watching a film is in a sense a way to escape, which is similar to travelling. Both provide temporary relief from the 'real' or familiar. An important part of the cinematic experience is that the audience is plunged into a fantasy world, in between the imaginary and the real. Similarly, when on holiday, tourists enter a kind of fantasy world between the imagined and real cultures and places being visited. Film tourism is partly based on the tourists' demands to escape into this in-between world and experience the cultural landscapes represented in films. The landscapes act as tourist attractions and, for the potential tourists, increase their awareness and familiarity with a destination (Carl, Kindon and Smith, 2007). The goal of this study is to determine whether a relationship exists between a film and students' holiday preferences.

## **LITERATURE REVIEW**

The student and youth travel market, whose importance to the global economy should not be underestimated, has the following key sector characteristics (WYSE Travel Confederation, 2011; Bywater, 1993; Carr, 2003; Chen, 2004; Shoham, Scharge and Van Eeden, 2004).

- They are independent travellers, who spend more money than those in other travel sectors and more time (at least four times longer) travelling in a destination than the average visitor.
- They have a higher lifetime value than other travel sectors, since today's students are tomorrow's honeymoon, family, business and leisure travellers, as well as foreign employees in the local industries – and, if they like a destination, they will return again and again.
- They create more jobs and bring greater benefit to local economies, since a higher percentage of their expenditure tends to remain in-country (using local establishments rather than foreign chains).
- They are more resilient to economic downturn and less reluctant than mainstream travellers.
- They are pioneers and trend-setters, forging new tourism frontiers and opening up new markets through their adventurous spirit and desire for new experiences.

- They communicate their experiences to a wide audience, often through their intensive use of social media, which facilitates further viral communication.
- They are leaders in environmental and socially conscious issues in their travel patterns and consumption behaviour, and they focus on self-development and cultural awareness, which fosters international understanding and social improvement.

Mass media has undoubtedly become a dominant source of information, definitions and images of social reality for individuals, and the media not only provides, but becomes the location of developments in culture, both in the sense of art and symbolic forms and in fashions, trends and lifestyles (McQuail, 1988:3). Media has become a vehicle of awareness and leadership and has brought the wonders of the world and the excitement of remote natural environments to millions of people (Tooke and Baker, 1996:87). Within the field of mass media, the significance and interest is growing in the ‘cinematic representation’ of how spaces are used and places are portrayed in films (Macionis, 2007:19). In more recent research, the emphasis has been on an active and productive relationship between media and consumer, in the sense that consumers are able to construct their own meanings from media messages (Hirschmann and Thompson, 1997:45). It is suggested that audiences act not as passive consumers of media persuasion, but rather as active producers of perceived meaning. The audience exposed to a film should not be regarded as a mere observer but as an active information processor, vicariously experiencing the world in the film (Kim and Richardson, 2003:221).

A feature film can provide international exposure for a tourism destination that is, in a sense, like an advertisement viewed potentially by millions of people who may be enticed to become film tourists. A film may generate and sustain greater interest in a destination in a way that marketing organisations cannot afford to do. Consumers are able to learn about destinations in a passive way without an impression of the *hard sell* that is inherent in paid advertising (Riley and Van Doren 1992:270). In terms of the gaze, Riley, Baker and Van Doren (1998) suggest that film tourists may be motivated by ‘vicarious involvement and identification with locations through movie storylines which allow greater personal meaning to the beholders of the gaze’. This notion of vicarious experience can be understood through the concept of empathy (Kim and Richardson,



2003), which suggests a visceral feeling about someone else's life that allows an individual to participate in the posture, motions and sensations of someone or something else. In certain types of place-orientated films, audiences can learn about the destination by participating in the place-related experiences of the characters (Kim and Richardson, 2003). However, tourism is in essence sensual, emotive and driven by a desire to experience a place, and so the sights, sounds, tastes, ambience and people are integral to that experience (Griffin, 2002:26). Therefore, vicarious experiences can simulate some, but not all aspects. The universal theme apparent in many discussions of film-induced tourism seems to suggest that this newly defined tourism niche refers to a post-modern experience of a place that has been depicted in some form of media representation (Beeton, 2005). In other words, film-induced tourism can also be described as an experience that is highly personalised and unique to each individual based on their own interpretation and consumption of media images.

One of the first feature films to cause major tourism influxes to a film location was *The Mutiny on the Bounty*; after the film's release in 1935, Tahiti became a major tourist destination (Roesch, (2009:8). There is no doubt that films create an increase in visitor numbers to their respective location (Tooke & Baker, 1996:88). This phenomenon has been recorded worldwide. For example, according to Tooke & Baker, 1996: films such as *Crocodile Dundee* and *Mad Max* had an influence on tourism growth in Australia, and *Dances with Wolves*, *Close Encounters of the Third Kind* and *Field of Dreams* turned their US film locations into a pilgrimage attraction. After its release, the film *Saving Private Ryan* led to a 40% increase in American visitors to Normandy (Keeble, 1999), while in the UK, films ranging from *Mary Poppins* (1964) to *Four Weddings and a Funeral* (1994), *Fever Pitch* (1996), *Mission Impossible* (1996) and *Sliding Doors* (1998) have transformed their film locations into attractions that are perceived by many tourists worldwide as worthwhile places to visit. A year after the release of the film *Braveheart*, Scotland experienced a 300% increase of visitors to the film's location at the Wallace Monument (Hudson and Ritchie, 2006:389), and very similar results were observed in New Zealand because of the success of *The Lord of the Rings* trilogy (Singh and Gary, 2004). The Old Royal College in Greenwich, where the *Pirates of the Caribbean* films were shot, attracted more than 1.27 million visitors in 2010, an increase of 13% compared to the previous year (VisitBritain, 2011). Lastly, the *Harry Potter*

films attracted more than 50% of tourists to various locations in the UK. In addition to film distribution, video, DVD, TV and the Internet further increase the exposure of films.

Films can motivate tourists to choose destinations, providing a necessary advantage, as the global tourism industry has become increasingly competitive (Hui, Wan & Ho, 2007:46). Marketing initiatives of destinations should be guided by an analysis of travel motivations to develop a more specific approach for convincing tourists to choose a destination (Heyns, 2010:14). Exploring travel motivations is critical for effective market segmentation and an important part of any tourism marketing strategy (Jonker, Heath and Du Toit, 2004:1, Saayman, 2006:62 and Slabbert, 2002:16). The importance of motivation in tourism is obvious: it acts as a trigger that sets off all the events involved in travel (Parrinello, 1993). Motivation is concerned with an individual's movements, or actions, and what determines them. It is the initial point in studying tourist behaviour and, beyond that, for understanding tourism systems (Pearce, 2005; Saayman, 2006:28). As Saayman (2006:29) points out, tourism motives can be specific or general. A general motive can be the main objective, while a specific motive can be the means of achieving that objective.

Motivation encompasses more deeply rooted psychological needs and desires, and so the key to understanding tourist motivation is to see vacation travel as a satisfier of needs and wants (Mill and Morrison, 1992:17). Page and Conell (2009:75) explain this by adding that the difference lies between the travel agents who see themselves as the sellers of airline seats and those who see themselves as sellers of dreams. The best-known motivation theory in the literature is Maslow's (1943) hierarchy of needs, which identifies five main classes of needs: physiological, safety, love, esteem and self actualisation. According to this theory, the actions and behaviour of an individual are determined by conscious or unconscious needs, which create the motives for action.

The two factors or stages in a decision to travel are: 'push factors' and 'pull factors' (Dann, 1981:203). Crompton (1979:408) builds on the 'push and pull' framework of motivation, including nine specific motives: escape from a perceived mundane environment; exploration and evaluation of self; relaxation, prestige, regression, enhancement of kinship relations; social

interaction; novelty and education. According to Iso-Ahola (1982:261), people are motivated to seek leisure activities so that they can leave behind personal and interpersonal problems of everyday life and obtain personal and interpersonal rewards from participating in such activities. According to Crompton and McKay (1997), these dimensions are similar generic categories to the push (escape) and pull (seeking) forces proposed by Dann (1977:204). These motivations (escape, fantasy, romance, novelty, self-identity, educational activities, social interaction, recreation, fun, nostalgia, unique holiday experience, personal connection, self actualisation and scenery) these motivations are similar to those fulfilled when students watch a film. In relation to the push and pull theory, the film itself could be the overarching pull factor. Therefore, after viewing a film, such as *My Life in Ruins*, various push and pull factors are triggered to fulfil internal motivations for travelling to the film destination.

## **RESEARCH METHODOLOGY**

The exploratory research was of a quantitative nature and used various, relevant statistical measures and procedures to examine the research question. The statistical measures used and the statistical procedures carried out during the study need first to be explained, as numerical data was used only from a selected population, generalising the findings to the universe being studied (Maree and Pietersen, 2008:145). Primary and secondary data were collected; the primary data used was captured through a self-administrated questionnaire, while the secondary data was collected from existing literature sources.

### **Research design and data collection method**

The research design was descriptive in nature, implementing quantitative research by means of a self-administrated questionnaire. The method was used to organise systematically the data gathered from tourism students in order to interpret the relationship between film and students' holiday preferences.

To compile an overview of perceived holiday preferences and film-induced tourism, a total sample of 221 tourism students was taken from the study population of 251 students that included

first-, second- and third-year students affiliated to the School of Tourism Management and Leisure Studies, North-West University (NWU), Potchefstroom Campus. The tourism students were required to watch a film and then complete a self-administered questionnaire. The film was *My Life in Ruins*, which is based in Greece, a recognizable tourism destination. This comedy film is a popular choice among students.

### **Sampling method**

According to Israel (2009:6), out of a population of 600 (N), 86 respondents (n) are considered representative and result in a 95% level of confidence with a  $\pm 10\%$  sampling error. The number of completed questionnaires is therefore greater than the required number of questionnaires. The study followed a probability sampling technique. Lecturers of each year group were consulted in advance and asked for permission to conduct the survey in certain class periods. After permission was granted, students were briefed on the purpose of the study and the questionnaire was distributed for completion after watching *My Life in Ruins*.

### **Development of the questionnaire**

A self-administrated questionnaire was developed based on literature relevant (Macionis, 2004:86-97) to the research topic, and the questionnaire's layout was consistent and systematic, with significant space between questions and answers (Struwig and Stead, 2001:95). The questionnaire comprised three sections: Section A, which asked for demographic information, such as gender, study year and province of origin; Section B, which contained 20 holiday preference statements; and Section C, which asked the students questions about the film *My Life in Ruins* in order to obtain their perceptions of film-induced tourism. This last section contained 29 motivational statements based on the film.

The scale-response questions used a comprehensive Likert scale. A Likert scale is usually linked to a number of statements to measure attitudes, motivations or perceptions of the respondents (Struwig and Stead, 2001: 91-94) and is very convenient when the measuring a construct. This is accomplished by asking a series of Likert scale questions and then calculating a total score for each respondent by assigning values of 1 to 4 to the categories and then adding each respondent's

four values based on his or her responses (Maree 2009:167). The following four-point Likert-scale was used in the questionnaire: 1-*Not Important*; 2-*Less Important*; 3-*Important*; 4-*Very Important*.

### **Data analysis**

SPSS 17.0 (SPSS Inc, 2009) was used to analyse the data in this study and comprised four stages. First, a profile of the students was drawn up and two clusters (casual film tourist, novice film tourist) were identified in this study.

Secondly, the interrelationship between the set of variables was determined using an exploratory factor analysis (Pallant, 2007:179), therefore identifying groups of variables (Fields, 2005:619). Such an analysis attempts to produce a smaller number of linear combinations of the original variables in a way that captures most of the variability in the pattern of correlations (Pallant, 2007:179), retaining as much of the data as possible (Fields, 2005:619). The factors were labelled according to the travel motives related to the study. All the items with a factor loading greater than 0.4 were considered as contributing to a factor. The internal consistency was computed for each factor using the Cronbach alpha coefficient. According to Nunnally (1978, cited by Pallant, 2007:6) a minimum level of 0.7 is recommended for the Cronbach alpha. However, if a scale has fewer than 10 items, the mean inter-item correlation for each factor must be calculated and reported. As recommended by Briggs and Cheek (1986, cited in Pallant, 2007:7), the optimal mean inter-item correlation values range from 0.2 to 0.4.

After testing the data set to determine whether it was suitable for exploratory factor analysis, two statistical measures (Bartlett's test of sphericity and the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy) were used to assess the factorability of the data (Pallant, 2007:181). These two measures determine the relationship between items, as well as the adequacy of the sample size (Pallant, 2007:180). Bartlett's test of sphericity should be significant ( $p < 0.05$ ) for the factor analysis to be considered appropriate (Pallant, 2007:181; Fields, 2005:599). As indicated by Tabachnick and Fidell (cited in Pallant, 2007:181) the KMO index ranges from 0 to 1, with 0.6 suggested as the minimum value for a good factor analysis. As recommended by Kaiser (1974,

cited in Fields, 2005:640), values between 0.5 and 0.7 are average, while values between 0.7 and 0.8 are good. However values between 0.8 and 0.9 are great and values above 0.9 are superb.

Thirdly, the data was analysed using Spearman's correlation coefficient in order to explore the strength, nature and extent of the correlation of students' holiday preferences and film. A positive correlation indicates that, as one variable increases, so does the other, while a negative correlation indicates that as one variable increases, the other will decrease (Singh, 2007:147; Pallant, 2007:95). In particular, the nonparametric Spearman rank order correlation coefficient was used, which does not rely on assumptions such as normality of the data (Field, 2005:179).

Lastly, a cluster analysis (Ward's method and Euclidean distances) was undertaken to identify two appropriate cluster groups. The two cluster groups (casual student film tourist and novice student film tourist) was subjectively decided based on interpretation and the number of cases within each cluster.

## EMPIRICAL RESULTS AND FINDINGS

**Table 1: Profile of students, casual film tourists and novice film tourists**

<i>Question</i>	<i>Reply</i>	<i>Percentage (%)</i>
<b>Gender</b>	Male	28
	Female	72
<b>Study year</b>	First year	39
	Second year	21
	Third year	35
	Other	4
<b>Province</b>	Gauteng	31
	Mpumalanga	10
	North-West	30
	Free State	9
	Eastern Cape	1
	Western Cape	5
	Northern Cape	1
	KwaZulu-Natal	3
	Limpopo	6
	Outside RSA borders	4
<b>Profile of students in</b>	<b>Reply</b>	<b>Percentage (%)</b>

cluster analysis		Casual film tourist	Novice film tourist
Gender	Male	67.2	32.8
	Female	51.9	48.1
Study year	First year	45.9	54.1
	Second year	56.3	43.8
	Third year	66.7	33.3

### **Sample description: students and cluster analyses demographic results**

Table 1 summarises the demographic characteristics of the respondents. The proportion of female students (27%) was higher than that of male students (28%), as more female students are enrolled in the Tourism Management Programme. This supports previous research, which found that some student populations are represented by more females than males (Heung & Leong, 2006:86-89). A total of 39% of students are in their first year, followed by 21% in their second year and 35% in their third year. Postgraduate students who participated in this study account 4% of the total students. Most of the students reside in the Gauteng Province of South Africa, while only 1% of students are from the Eastern Cape and 1% from the Northern Cape. A study by Heyns (2009:36) and Pretorius, Kruger and Saayman (2010:9) also found that the highest percentage of the student population in their study were from the Gauteng Province of South Africa.

The two clusters identified in this study were casual film tourists and novice film tourists. Casual film tourists are made up of 67.2% males and 51.9% females, comprising 45.9% first-year, 56.3% second-year and 66.7% third-year students. This split may be explained by the fact that the tourism department at the North-West University has more first-year than second-year, third-year or honours students enrolled for the tourism management course. Cluster 2 (novice film tourists) was made up of 32.8% male and 48.1% female, with the majority (54.1%) being in their first year of study.

**Table 2: Exploratory factor analysis of students' holiday preferences and perceptions of film-induced tourism.**

Factor	Students' holiday preferences *	Factor loadings	Mean	Std. deviation	Average mean inter-item correlation	Minimum communalities	Maximum communalities	$\alpha$
1	<b>Educational activities</b>		<b>2.52</b>	<b>0.62</b>	<b>0.35</b>	<b>0.18</b>	<b>0.78</b>	<b>0.73</b>
	Experience different lifestyles	.92						
	To learn more about my/other countries	.62						
	Learn new things	.53						
	Meet people with similar interests	.46						
	To study	.37						
2	<b>Leisure time</b>		<b>3.36</b>	<b>0.46</b>	<b>0.28</b>	<b>0.13</b>	<b>0.48</b>	<b>0.70</b>
	Relax from daily tension	.69						
	Escape from a busy environment	.64						
	To rest physically	.64						
	To relax	.47						
	To get refreshed	.46						
Be together as family	.26							
3	<b>Social interaction</b>		<b>3.40</b>	<b>0.59</b>	<b>0.59</b>	<b>0.45</b>	<b>0.69</b>	<b>0.74</b>
	To spend time with friends	.83						
	Be together as a group of friends	.67						



Factor	Students' holiday preferences*	Factor loadings	Mean	Std. deviation	Average mean inter-item correlation	Minimum communalities	Maximum communalities	$\alpha$
4	<b>Recreational</b> Do exciting things  To do something out of the ordinary  To share a familiar/unfamiliar place  Explore new destinations  Participate in recreational activities	.67  .57  .45  .42  .31	3.17	0.45	0.27	0.17	0.47	0.68
5	Fun	.76	3.82	0.46				

\* Extraction method: principal axis factoring; rotation method: Oblimin with Kaiser normalisation; rotation converged in 10 items

Factor	Students' perceptions of film-induced tourism**	Factor loadings	Mean	Std. deviation	Average mean inter-item correlation	Minimum communalities	Maximum communalities	$\alpha$
1	<b>Nostalgia of film</b>		<b>2.83</b>	<b>0.64</b>	<b>0.47</b>	<b>0.39</b>	<b>0.62</b>	<b>0.88</b>
	Feel excited to go to the film site	.73						
	Get a sense of the film's atmosphere	.66						
	Reminisce about the film	.66						
	Gain first-hand experience of the film	.57						
	Thinking of talking about the film to others	.56						
	Want to take photos when visiting the film site	.43						
	Feel the romance and nostalgia of the film	.37						
	Relive the scene from the film	.34						

Factor	Students' perceptions of film-induced tourism**	Factor loadings	Mean	Std. deviation	Average mean inter-item correlation	Minimum communalities	Maximum communalities	$\alpha$
2	<b>Unique holiday experience</b>		3.44	0.37	0.27	0.21	0.49	0.72
	Have a unique experience	.63						
	Experience something novel and new	.59						
	Add something special to my holiday	.54						
	Have a satisfying tourism experience	.51						
	Fun and feel entertained	.46						
	Escape from the ordinary	.43						
To see scenery and landscape in real life	.32							
3	<b>Personal connection</b>		2.29	0.75	0.53	0.23	0.76	0.87
	Fantasise that I was an actor in the film	.87						
	Feel close to my favourite actor	.83						
	Fantasise that I was in the film	.74						
	Personally experience the storyline of the film	.57						
	Bring the film to life	.32						
Bathe in the glory of thinking I've been there	.27							

Factor	Students' perceptions of film-induced tourism**	Factor loadings	Mean	Std. deviation	Average mean inter-item correlation	Minimum communalities	Maximum communalities	$\alpha$
4	<b>Self-actualisation</b> Fulfil a personal dream  Experience personal growth by wanting to visit the site  Go to famous places my friends haven't been to	.52  .44  .37	3.04	0.65	0.36	0.27	0.48	0.63
5	<b>Scenery at film location</b> Make a pilgrimage to sites seen on film  Want to experience the film location  Make a personal connection with the film  I will buy film souvenirs at the location	.50  .46  .38  .37	2.58	0.69	0.46	0.34	0.51	0.81

\*\* Extraction method: principal axis factoring; rotation method: Oblimin with Kaiser normalisation; rotation converged in 17 items

### Results of the factor analysis

To determine whether the results obtained for the 49 questions (measurement set), which measured students' holiday preferences and film influences on students' holiday preferences, show a normal distribution, the kurtosis and skewness of the distribution of the results were examined. The variable 'Fun' loaded negatively skewed, and the variable 'To study' loaded positively skewed. The same pattern matrix was obtained after the square root transformation and fixed patterns resulted from the data. An activity for which the skewness of the distribution is less than 2.00, or where the kurtosis of the distribution is less than 7.00, falls within acceptable limits

of normality (West, Finch and Curran, 1995). The questions that measured students' holiday preferences and the film's influence on students' holiday preferences fall within these limits. The face (or content) validity approach is used to assess the validity of a measurement, or the degree to which a measurement measures what it is supposed to measure. A factor analysis was used to determine the structure validity of the measurement sets (Diamantopoulos and Schlegelmilch, 1997).

As can be seen in Table 2, five factors were identified within the section of students' holiday preferences. The first factor consisted of five questions that were grouped together and labelled *Educational activities*. The second factor's questions were grouped and labelled as *Leisure time*. The third factor contained two remaining questions and was labelled as *Social interaction*. The fourth factor had six questions and was labelled *Recreational activities*. The last factor had one question and was labelled *Fun*.

Five factors were identified in the film's influence on students' holiday preferences. The first factor consisted of eight questions that were grouped together and labelled *Nostalgia of film*. The second factor consisted of seven questions and was labelled *Unique holiday experience*. The third factor included six questions on personal connections with the film, and was labelled *Personal connection*. The fourth factor included three questions on *Self-actualisation* issues. The last factor included five questions and was labelled *Scenery at film location*. The results in Table 2 indicated the appropriateness of principal components analysis (data reduction procedure) for the collected data. The extraction method was principal axis factoring and the rotation method: varimax with Kaiser normalisation were used (SPSS, 2003).

Table 2 shows the items for the ten factors. The sample size for students' holiday preferences was adequate since the  $KMO = 0.73$ , which is an average value for the first five factors. Bartlett's test of sphericity's p-value was  $<0.0001$ , which is  $<0.05$ . The total percentage of variance explained by the extracted factors is 45.69%. The sample size for film's influence on student's holiday preference was adequate since the  $KMO = 0.73$ . Bartlett's test of sphericity's p-value was  $<0.0001$  which is  $<0.05$ .

The internal consistency was computed for each factor using a Cronbach alpha coefficient. According to Nunnally (1978, cited by Pallant, 2007:6), a minimum level of 0.7 is recommended for the Cronbach alpha. However, if a scale has fewer than 10 items, the mean inter-item correlation for each factor must be calculated and reported. As recommended by Briggs and Cheek (1986, cited in Pallant, 2007:7), the optimal mean inter-item correlation values range from 0.2 to 0.4. The findings presented in the foregoing section indicate that the results of the study are representative of the population under study. The measurement set used in the study is reliable and valid.

**Table 3: Correlation coefficient of students' holiday preferences and film.**

			Educational activities	Leisure time	Social interaction	Recreational activities	Fun
Spearman's rho	Nostalgia of film	Correlation coefficient	.173*	.219**	.197**	.230**	.270**
		sig. (2-tailed)	.010	.001	.003	.001	.000
		N	221	221	221	221	221
	Unique holiday experience	Correlation coefficient	.190**	.274**	.086	.098	.088
		sig. (2-tailed)	.005	.000	.202	.148	.192
		N	221	221	221	221	221
	Personal connection	Correlation coefficient	.211**	.236**	.078	.288**	.155*
		sig. (2-tailed)	.002	.000	.245	.000	.021
		N	221	221	221	221	221
	Self-actualisation	Correlation coefficient	.094	.371**	.139*	.172*	.190**
		sig. (2-tailed)	.165	.000	.039	.011	.005
		N	221	221	221	221	221
Scenery at film location	Correlation coefficient	-.004	.109	-.057	.011	-.040	
	sig. (2-tailed)	.955	.105	.403	.867	.556	
	N	221	221	221	221	221	

\*\* Correlation is significant at the 0.01 level (2-tailed), (Pallant, 2005:130).

\* Correlation is significant at the 0.05 level (2-tailed).

### Results of Spearman's correlation coefficient

As Table 3 shows, *Nostalgia of film* clearly correlates with *Educational activities* (0.17), *Leisure time* (0.22), *Social interaction* (0.10), *Recreational activities* (0.23) and *Fun* (0.27). According to Chatterton (1999:119), traditional student life extends beyond the formal time and space of the university. A variety of activities include watching films and visiting night-clubs, live music venues, galleries and exhibitions. Tourism students felt that the nostalgia of the film will make travelling to the film destination fun.

*Unique holiday experience* correlates with *Educational activities* (0.19) and *Leisure time* (0.27). Students often want to learn more and will want to see, and learn, as much as possible when

visiting the film destination during their brief time abroad because they are not sure when, if ever, they would get a chance to visit again. For many students, getting to know the places they visited matters far less than being able to say that they have been there (Gmelch, 1997:478). As film-induced tourism has a special interest niche appeal, it is not surprising that several students emphasise the uniqueness of visiting places associated with the film *My Life in Ruins*. Crompton (1979:409) refers to novelty as a motivating push factor and suggests that a tourist's desire for new and unique experiences (such as to experience something novel and new and out of the ordinary) is a fundamental motivator in the destination selection process. The students also felt that watching the film will add something special and unique to their holiday when visiting the film destination.

Students' *Personal connection* has an effect on *Educational activities* (0.21), *Leisure time* (0.24), *Recreational activities* (0.29) and *Fun* (0.16). When students were asked what they thought was appealing or attractive about travelling to where the film was made, their reply was having a strong personal connection with the film. This motivation to make a personal connection with a film is supported by the sense of experiencing an intrinsically significant connection between the 'media world' and the world of the ordinary viewer (Coudry, 1998:98). These students need to be physically at the site of the film destination, to stand in the footsteps of their favourite actor and to fantasise that they are actually an actor in the film, and relive special moments seen in the film.

*Self-actualisation* correlates with *Leisure time* (0.37), *Social interaction* (0.14), *Recreational activities* (0.17) and *Fun* (0.19). Tourism is often about recreation, enjoyment, social interaction, fun and the tourism and leisure literature typically discusses the psychological contributions derived from experiences, as opposed to the core facilitating and experience-enabling components (Pearce, 2005; Macionis, 2007:113). Therefore, it is not surprising that students expressed self-actualisation as one of the reasons to engage in film-induced tourism. Common comments were related to fulfilling a personal dream, experiencing personal growth by visiting the site and going to famous places their friends have not been.



No statistically significant correlations exist between *Scenery at the film location* and *Educational activities*, *Leisure time*, *Social interaction*, *Recreational activities* and *Fun*. This could be because students travelling to the film destination are still thinking of collecting memorabilia and souvenirs. Visiting the film's destination gives students the opportunity to build their own narrative capital, providing them with a sense of connecting to film scenery because someone might want to hear the story about the scenery they saw in the film.

### Results of Ward's cluster analysis

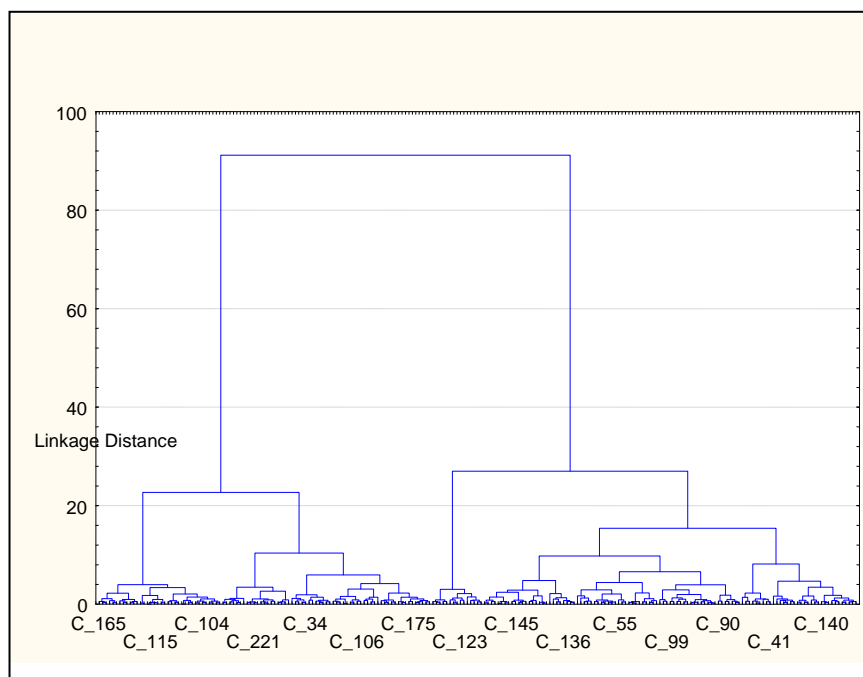


Figure 1: Tree diagram for 221 cases, Ward's method and Euclidean distances

Cluster analysis is a technique that almost invariably produces groupings that are significantly different from each other when using a variance analysis on the items used for the clusters, and so great care has to be taken to ensure clear and distinct centres for each group. While a number of statistical measures exist to support the validity of the discerned groups, data verification remains a process that involves value judgments on the part of the researcher (Everitt and Dunn, 1991 and Ryan, 1995). The researchers seek to identify clear groupings that are large enough to have management implications. Among the means available for checking the clarity of grouping is the

use of discriminant analysis once a number of groups have been determined. SPSS permits an assessment of the correct allocation of respondents to a given group. For the film's influence on holiday preferences, a cluster analysis was used to classify the subjects (students) into mutually exclusive groups (casual film tourist and novice film tourist) on the basis of the Ward method using the *K*-means clustering procedure. This is shown in Figure 1.

**Table 4: Cluster analysis of casual student film tourists and novice student film tourists**

Ward Method		N	Mean	Std. deviation	Std. error mean	P-value sig. (2-tailed)
Nostalgia of film	1*	124	2.44	.52	.047	0.01
	2**	97	3.34	.37	.038	
Unique holiday experience	1*	124	3.31	.39	.035	0.01
	2**	97	3.60	.27	.027	
Personal connection	1*	124	1.90	.54	.049	0.01
	2**	97	2.86	.58	.059	
Self-actualisation	1*	124	2.71	.60	.054	0.01
	2**	97	3.47	.42	.043	
Scenery at film location	1*	124	2.15	.53	.048	0.01
	2**	97	3.12	.43	.043	

**Note:** 1-4 Scale, 1 = Not important, 4 = Very important,  $p < 0.05$

\* Casual student film tourist – A student film tourist who just happen to participate, presence not necessarily related to film.

\*\* Novice student film tourist – A student film tourist who is very knowledgeable about films.

The results displayed in Table 4 indicate that a two-cluster solution appeared to be appropriate. Cluster 1 represents 56.1% and cluster 2 represents 43.9% of the total sample population of 221 respondents. Specifically, multivariate statistics indicate that statistically significant differences existed between the two clusters at  $p < 0.001$ . All groups were found to be accurately allocated in their cases. Cluster 1 included respondents (students) who had lower scores across the items with the exception of *Unique holiday experience* (a higher mean score of 3.31 = important).

Respondents in cluster 1 scored the following on the Likert scale for the factors *Nostalgia of the film* (2.44), *Personal connection* (1.90), *Self-actualisation* (2.71) and *Scenery at the film location* (2.15). As shown in Table 4, respondents in cluster 2 appeared to have higher mean scores on factors such as *Nostalgia of the film* (3.34), *Unique holiday experience* (3.60), *Personal connection* (2.86), *Self-actualisation* (3.47) and *Scenery at the film location* (3.12).

## CONCLUSIONS AND RECOMENDATIONS

The results of this study support the notion that a film can develop a need to travel, as shown by students after watching the film *My Life in Ruins*. This exploratory research contributes empirically to tourism, marketing and management literature and research, by including the relationship between film and students' holiday preferences. This study is also beneficial to marketers of film destinations, as it offers valuable information on the correlations between perceptions of the film, such as nostalgia of film, unique holiday experience, personal connection, self-actualisation, scenery at film location and holiday preferences, including educational activities, leisure time, social interaction, recreational activities and fun of students. Two major clusters were identified (casual student film tourist and novice student film tourist). Marketers should now know that there are two identified clusters that they can target with different marketing approaches.

Furthermore this research provides marketers of film-induced destinations with valuable information about students' future travel behaviour to a destination that has been featured in a film. To market tourism attractions, marketers of film-induced destinations need to understand the motivating factors behind travel decisions and students' holiday preferences. Based on the identified students' holiday preferences, the practical settings at the film destination can be adjusted to ensure these preferences are fulfilled. Student holiday preferences are likely to facilitate the effectiveness of other marketing activities at film-induced destinations. Marketers of film-induced destinations can therefore ensure that unique holiday experiences are made accessible and promoted properly to the student market.

Film-induced tourism, especially for a young market such as students, can offer destinations significantly increased student travel awareness and potential visits, which will stimulate an increase in revenue and economic development. To entice student travellers to the film destination, marketers of film-induced destinations should pay attention to factors identified in this study that influence student travel behaviour and their holiday preferences.

## **LIMITATIONS AND FUTURE RESEARCH**

This study is not without limitations, as the sample includes only tourism students of the North-West University, and the time available and cost to conduct the survey were restricted. Future research could compare first-year, second-year and third-year students' perceptions of the specific film location, Greece, to determine whether significant differences exist between students of various years of study. Film-induced tourism is a relatively new concept, and this study focused on the relationship between film and students' holiday preferences. Future research could study other related marketing concepts in film-induced tourism, which would broaden the literature covering this topic, creating a greater theoretical basis for other researchers in this field. Other marketing/media-related concepts to study further with regard to film-induced tourism could include: *Preferences, Behaviour, Attitude, Motivation, Decision making, Media preference, Movie-genre preference, Personality as a determinant of perception/preference, Dominant feature in film influencing perception, Pre- and Post travel perception/experience after watching and visiting a film destination* etc. These ideas and/or concepts could be integrated to form new literature in the field of film-induced tourism.

Future research should not only be limited to tourism students of the North-West University, but can also include other faculties and other tertiary institutions. Other age groups should also be studied to broaden the demographic and theoretical background to the concept. Motion pictures other than *My Life in Ruins* could be used for future surveys, as well as films mentioned in the literature review. The contribution to the literature would be to create awareness of other tourism destinations. Qualitative research could also be carried out, by selecting a small group of willing

individuals to watch a number of films screened in various countries in order to compare perceptions and preferences of different countries.

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# **THE ROLE OF OPINION LEADERS IN PROMOTING BRANDS IN BLACK TOWNSHIPS: AN EXPLORATORY STUDY**

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**Keywords:** Opinion leaders, brands, black townships, South Africa

# **THE ROLE OF OPINION LEADERS IN PROMOTING BRANDS IN BLACK TOWNSHIPS: AN EXPLORATORY STUDY**

## **ABSTRACT**

The black consumer market in South Africa has been neglected by marketers despite it being a very lucrative market and therefore marketers have lost numerous profitable opportunities. Using white or European marketing techniques is unsuccessful in the black market segment. Brand messages need to be conveyed differently. It is suggested that opinion leaders are used as they are viewed as the most influential people within a black community.

The primary objective of this explorative study was to explore the role of opinion leaders in promoting brands in black townships in South Africa. The information presented in this study will be used as part of a more descriptive exploratory study. The study has shown that black consumers consume various branded products (i.e. Nike and Levis), they are influenced by both consumer-related (i.e. opinion leaders including friends, family and celebrities) and media-related (i.e. television advertisements) influencers in order to buy the aforementioned branded products and that there are various motivations behind their brand purchasing behaviour, such as gaining approval from a social group.

## **1.1 INTRODUCTION**

The black consumer market in South Africa is viewed as growing, rewarding and becoming increasingly accessible to marketers. It is no longer a low-spend market as it was in the past (Nelson, 2008; Morris, 1992: 5-6; 10). This market is further viewed as a market that has not been effectively targeted, and therefore marketers have lost numerous profitable opportunities over the years (Van Eck, Grobler & Herbst, 2004:2; Morris, 1992:24). This market constitutes 79.4% of the total South African population (StatsSA, 2010). Coupled with this fact and the fact that this market can be very profitable, the financial benefits of serving this market cannot be ignored (Nelson, 2008; Morris, 1992:19). Morris (1992:19) further states that for businesses to grow sales volumes, it is critical for marketers to exploit the black consumer market efficiently (Morris, 1992:25).

Understanding this market is therefore vital to businesses. Marketers often assume that marketing techniques that were successful within the traditional white sector, will also be successful within the black market. This is, however, not true. The communication methods used to communicate to white consumers are often very different from those used to communicate to black consumers (Morris, 1992: 32-33; 41-42).

Most advertisements are made with whites in mind, and fail to communicate with black consumers (Morris, 1992:32-33). It is believed that white and European humour, differ from and, is not always effective when communicating with the black market (Morris, 1992:30). It rather seems that word-of-mouth is an effective way to communicate with black consumers; positive or negative rumours about a specific product can affect sales in the black consumer market dramatically (Nelson, 2008; Morris, 1992:38).

In previous research conducted in black townships, researchers interviewed agents, stokvels, community leaders, church groups, women's institutions, youth clubs and business men, as these people are believed to have a strong influence on the views and attitudes of black consumers (Morris, 1992:49-50). It is suggested by Hawkins and Mothersbaugh (2010:244) that marketers rely on the word-of-mouth information communicated by such influential consumers as they are viewed as trustworthy.

The aforementioned statements are indicative of the importance of understanding the role that opinion leaders play in townships. The main aim of this paper is to gain initial insights into the role of opinion leaders in promoting brands in black townships in South Africa. The information gained from this explorative study will be used as initial input in the development of a more descriptive quantitative study (i.e. developing a brand purchasing model for the black township market). Additional in-depth interviews will be conducted amongst a more diverse group of respondents that will allow more insightful conclusions and recommendations to be drawn.

## **1.2 BACKGROUND**

The black consumer market in South Africa is regarded as fascinating, rewarding, accessible, affordable, and available to marketers (Nelson, 2008; Morris, 1992:5-6). According to Statistics South Africa (StatsSa, 2010) Africans constitute 79.4% of the total South African

population opposed to the white population of 9.2%. The spending power of this market segment has grown from 5% during the Second World War to 40% of the total spending power in South Africa in the 1980s (Morris, 1992:13-15). More recent research has shown that the spending power of the middle-class black consumer (i.e. black diamonds) in South Africa is growing extensively (Marketingweb, 2007). A research report issued by the Bureau of Market Research at the University of South Africa (2010) concluded that Africans and Whites constitute the majority of adults in the higher income groups, with Africans dominating in the emerging middle-class income groups of R50k – R300k per year. The aforementioned statistics highlight the importance of the black consumer market and the increasingly important role of the black consumer (Morris, 1992:16).

Marketers have long since realised that one of their most valuable assets is the brand names associated with their products or services. Consumers are faced with more choices than ever before. They also have less time to make those choices, and therefore rely on brand names to facilitate these choices. A brand must therefore have the ability to simplify consumer decision-making, reduce risk and set expectations (Keller, 2008:9; Keller, Apéria & Georgson, 2008:1). Creating strong brands that deliver on their promises and maintain and enhance the strength of the brands over the long-term, has become essential in today's increasingly complex and competitive world (Keller *et al.*, 2008:1).

It is, however, important to communicate the brand message to consumers. Marketers rely on various forms of marketing communication and strategies to communicate brand messages to consumers (Ouwersloot & Duncan, 2008:9). It is said that marketing communication entails creating, delivering, managing and evaluating brand messages (i.e. the information and experiences that influence the perceptions of consumers and other stakeholders of a brand) (Ouwersloot & Duncan, 2008:8). The overall objective of marketing communication is to build brands through the use of advertising, public relations, sales promotion, direct marketing, personal selling, packaging, events and sponsorships, and customer services. (Ouwersloot & Duncan, 2008:9).

Many consumers are, however, becoming ever more sceptical towards marketing communication messages (Ouwersloot & Duncan, 2008:11). When they do watch television advertisements or read printed advertisements, these consumers often ignore the marketing messages (Hawkins & Mothersbaugh, 2010:244; Belch & Belch, 2009:151). As a result of

the aforementioned, marketers have recognised that in order to capture the attention of consumers and to penetrate into their scepticism, they need to convey marketing communication messages in different ways (Belch & Belch, 2009:151). Marketers are also increasingly relying on word-of-mouth and influential consumers as part of their marketing strategies, since these efforts are viewed as believable and trustworthy by consumers (Hawkins & Mothersbaugh, 2010:244).

In order to make messages more believable and to counter the lack of consumers' trust, marketers identify and make use of opinion leaders (Ouwersloot & Duncan, 2008:111). Opinion leaders are those individuals in a community who are considered as influential, credible and trustworthy. They are usually the trendsetters and have a high profile. They are powerful influencers on the purchasing behaviour of other members of their community (Belch & Belch, 2009:151). Marketers try to encourage opinion leaders to spread positive messages about a particular brand of product or service to their friends and admirers (Belch & Belch, 2009:151). This is important, as each carefully educated recipient of the brand message becomes a powerful carrier of that message, spreading the word to yet more carriers (Belch & Belch, 2008:151).

Within the South African context opinion leaders are widely used by marketers. Rousseau (2007:81) suggests that opinion leaders are used as spokespersons in brand messages that are directed especially at black consumers. The author professes that in order to use an opinion leader to communicate a brand message that is perceived as credible and understandable amongst black consumers, it is required that these consumers are able to identify with the opinion leader, and consider the situation in which the opinion leader is portrayed as realistic (such as in-home or sporting environments). Another requirement is the fact that these consumers also require opinion leaders to express and explain the product benefits carefully in simple and meaningful terms (Rousseau, 2007:81).

Based on the aforementioned information, the use of opinion leaders in black townships to convey brand messages is evident. However, limited research has been conducted on this market segment and the role of opinion leaders in promoting brands in black townships. Research that has been conducted includes Morris (1992); Van Eck, Grobler and Herbst (2004); and Foshizi (2008). A survey has also been conducted by Market Research Africa (1968) which focused on the life in townships. Articles published in the Marketing Mix

(2008) also focused on effective marketing in townships. Although such research has been conducted, it still seems that the black consumer, especially those living in townships, have been neglected in terms of marketing research, despite being a very lucrative market for products and services. As a result, it is believed that South African marketers have lost and are currently losing numerous profitable opportunities (Van Eck *et al.*, 2004:2; Morris, 1992:24). To enable South African marketers to become more successful in their marketing efforts, information on black consumers and their consumption behaviour has become vital (Van Eck *et al.*, 2004:2).

Although some research, as mentioned above, has been conducted on consumers in black townships, it does not focus on the role of opinion leaders in promoting brand consumption amongst consumers in black townships, and it can therefore be concluded that research on the aforementioned topic is limited and should be extended.

### **1.3 LITERATURE REVIEW**

This section starts with a discussion of consumer behaviour and the relevance to black consumers. Consumers consume various branded products, therefore a discussion on branding follows, as well as a discussion of the tools and mechanisms through which brand messages are conveyed (i.e. integrated marketing communication). Lastly, opinion leaders, as the source of marketing communication in black townships, are discussed.

#### **1.3.1 Consumer behaviour and its relation to black consumers**

*Consumer behaviour* is viewed as the study of individuals and businesses and the processes that they use in order to select, use and dispose of products and/or services to satisfy needs (Hawkins & Mothersbaugh, 2010:6). Various internal and external factors influence the consumption behaviour of consumers. External influences include factors such as culture, subculture, demographics, social status, reference groups, family, and marketing activity. Internal influences include factors such as perception, learning, memory, motives, personality, emotions and attitudes (Hawkins & Mothersbaugh, 2010:2).

For businesses to survive and be successful in today's business world, it is vital to understand how people behave in consumption situations (Du Plessis, 2007:6). In order to develop sound



marketing strategies, a business must be knowledgeable about the environment, competitors, and the market of which the consumer is part (Du Plessis, 2007:6).

The black market is viewed as challenging, as each township is very diverse (Duff, 2008; Morris, 1992:5). The black consumer is furthermore viewed as a big spender, as he is not inclined to save a lot of money (Morris, 1992:19), and is very aware of the free enterprise system, knowing the value of the rand (Morris, 1992:22).

**1.3.2 Branding and its relation to black consumers**

According to the American Marketing Association (AMA), a *brand* is defined as a name, term, design, symbol, or any other features that will distinguish one seller’s goods or services from another seller’s goods or services (American Marketing Association, 2011). *Branding* is viewed as a means to distinguish the goods of one producer from those of another (Keller, 2008:2).

Brands fulfil numerous important roles to both consumers and companies (manufacturers) (Keller, 2008:6). Table 1 illustrates these roles (Keller, 2008:6-9).

**Table 1: The role that brands fulfil**

Consumer	Company/Manufacturer
<ul style="list-style-type: none"> <li>• Brands identify the source or maker of a product and allow consumers to assign responsibility to a particular product maker/manufacture/distributor.</li> <li>• Brands are a means of simplification in terms of consumer decision-making.</li> <li>• Brands allow consumers to lower the search cost for products both internally and externally.</li> <li>• The meaning instilled in brands allows the relationship between the brand and the consumer to be seen as a bond or a</li> </ul>	<ul style="list-style-type: none"> <li>• Brands are a means of identification to simplify product handling or tracing.</li> <li>• Brands are a means of legally protecting unique features or aspect of the product.</li> <li>• Brands are a signal of the quality level to satisfied consumers.</li> <li>• Brands are a means of endowing products with unique associations.</li> </ul>

<p>pact.</p> <ul style="list-style-type: none"> <li>• Brands are viewed as symbolic devices. Consumers can project their self-image through the use of branded products.</li> <li>• Brands are a signal of quality.</li> <li>• Brands reduce the risk in product decision.</li> </ul>	<ul style="list-style-type: none"> <li>• Brands are a source of competitive advantage.</li> <li>• Brands are a source of financial returns.</li> </ul>
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It is suggested by Morris (1992:98) that black consumers, especially those in rural areas, are very loyal to strong brands (i.e. brands that they trust). Consistency in a brand is therefore critical. Brands that work efficiently will build credibility and repeat purchasing will follow. Effective marketing communication (i.e. using the correct marketing tools) within townships to communicate the brand message is also critical (Morris, 1992:91-92).

### 1.3.3 Integrated Marketing Communication to black consumers

*Marketing communication* is defined as a collective term for all the various types of planned messages used to build a brand, including advertising, public relations, sales promotions, direct marketing, personal selling, packaging, events and sponsorships, and customer service (Ouwensloot & Duncan, 2008:9; Duncan, 2005:7). Marketing communication entails creating, delivering, managing and evaluating brand messages (Ouwensloot & Duncan, 2008:8). Building brands is the overall objective of all marketing communication (Ouwensloot & Duncan, 2008:9). Marketers use an integrated and coordinated approach to effectively communicate brand messages to consumers. This is referred to as Integrated Marketing Communication. *Integrated Marketing Communication* entails communicating a consistent and unified brand image to consumers (Belch & Belch, 2007:9-10; Duncan, 2005:17).

It is believed that the media types used to reach black consumers will vary. For the urban market, television, radio, outdoor, print and magazine advertising will be efficient. For the rural market effective reach will be achieved through radio advertising, as well as outdoor advertising, including advertisements posted on buses and bus shelters (Morris, 1992:91-92).

In a study conducted by Rousseau and Saunders (1985), it was concluded that adolescent Sowetons give preference to consumer-dominated information sources, including friends, as well as market-dominated sources, such as television advertisements. The findings further highlighted the importance of opinion leader influence on the consumption behaviour and effective targeting of these adolescent consumers.

Foshizi, a black consumer insight agency, conducted a media usage study in 2008 amongst consumers in urban townships, peri-urban and rural areas. In this study it was suggested that television viewing in these communities is subject to the accessibility to a television. Selective viewing is also practised, meaning that the television is switched off or changed to another channel when advertisements are shown. It was further suggested that consumers' choice of television programmes includes local soapies such as Generations and 7de Laan, current affairs programmes, such as Special Assignment, documentaries and the news. Consumers in these communities also prefer to listen to radios, although selective listening is again practised. Consumers listen to local radio stations that speak their language. These consumers listen to their favourite programmes and then tend to switch off the radio afterwards in order to conserve battery life. Newspapers are also viewed as a non-essential to consumers in these communities. These consumers would rather spend their money on food items. It was further mentioned that free community newspapers are widely read.

The use of opinion leaders as spokespersons in television advertisements directed at black consumers is an important part of marketing to consumers in townships. These opinion leaders must be portrayed in realistic situations in order to enhance the credibility of the advertisement and improve chances of comprehension (Rousseau, 2007:81).

#### **1.3.4 Opinion leaders as part of integrated marketing communication to black consumers**

*Opinion leaders* are defined as people who filter, interpret, or provide product and brand-relevant information to their family, friends and colleagues (Hawkins & Mothersbaugh, 2010:240). They are viewed as people to whom others look for advice and information regarding new products, services, and/or market innovations (Rousseau, 2007:81). An opinion leader can be a radio personality, a next-door neighbour or a relative (Rousseau, 2007:81). Celebrities are also often used by marketers to act as spokespersons for their

products. In this case, teaser campaigns and testimonial approaches are used to enhance the social influence derived from these advertising strategies (Rousseau, 2007:85).

Opinion leaders are sometimes regarded as and referred to as people who are prominent figures within a society, or someone who has power over other individuals. This, however, is not true. An opinion leader is a person whom another person regards as an opinion leader (i.e. knowledgeable) in a particular field (Hawkins & Mothersbaugh, 2010:243; Du Plessis & Rousseau, 2007: 81). Only when a person acts as a spokesperson, he or she is referred to as an opinion leader (Du Plessis & Rousseau, 2007:80-81).

It is said that an individual tends to be an opinion leader only for specific products and/or categories (Hawkins & Mothersbaugh, 2010:242). Opinion leaders function primarily through interpersonal communications and observations (Hawkins & Mothersbaugh, 2010:242) and can be found within all demographical segments of the population (Hawkins & Mothersbaugh, 2010:242-243).

#### **1.4 PROBLEM STATEMENT**

Based upon the abovementioned background and literature review, it is evident that:

- Brands are invaluable to businesses. Consumers are faced with numerous product choices. Therefore, businesses need to create strong brands that will be able to assist consumers in simplifying their purchase decisions (Keller, 2008:9; Keller, Apéria & Georgson, 2008:1).
- Consumers doubt marketing communication messages. Therefore, marketers need to convey brand messages in different ways (Belch & Belch, 2009:151; Ouwersloot & Duncan, 2008:11).
- Word-of-mouth recommendations and influential people (i.e. opinion leaders) are widely used by marketers to communicate with consumers in black townships (Hawkins & Mothersbaugh, 2010:244; Ouwersloot & Duncan, 2008:111; Rousseau, 2007:81). Opinion leaders are used to spread positive word-of-mouth about a specific product or service (Belch & Belch, 2009:151).

- The black market is seen as a lucrative market full of numerous profitable opportunities (Nelson, 2008; Morris, 1992:5-6). Despite these opportunities, marketers have neither explored nor exploited this market effectively. The black market has also not been targeted effectively by marketers, that is, white and/or European approaches have been used to communicate with black consumers. These approaches are mentioned to have been unsuccessful (Morris, 1992:30).
- Limited and/or outdated research exists on the role that opinion leaders play in promoting brands in black townships in South Africa.

**The following problem statement can therefore be formulated:**

Marketing within black townships has been neglected in the past. As the black market is viewed as a growing and lucrative market, marketers cannot ignore this market anymore. Marketing communication methods that are traditionally used to communicate brand messages to the white consumer are seen as unsuccessful within the black consumer market. As strong brands are central to the consumer's purchase decision, marketers need to utilise other methods, such as opinion leaders, to effectively spread brand messages within townships. Should marketers continue to ignore this market segment and the use of opinion leaders in spreading brand messages within townships, they will lose numerous profitable opportunities.

Based upon this problem statement, a primary objective and several secondary objectives have been formulated for the study.

## **1.5 RESEARCH OBJECTIVES**

The primary objective of the study was to explore the role of opinion leaders in promoting brands in black townships in South Africa.

The secondary objectives identified were as follows:

1. To gain insight into consumers' evoked set of brands in black townships.
2. To determine the opinion leaders in black townships.
3. To explore the role of these opinion leaders in promoting brands in black townships.

The information gained from this study will firstly contribute to the development of a more descriptive quantitative study and secondly contribute to marketing literature in providing valuable insight to marketers and/or brand managers on how to effectively develop marketing strategies in order to exploit the township market more effectively.

## **1.6 PROPOSITIONS OF THE STUDY**

Based on the abovementioned research objectives, the following propositions are made:

1. Brands are highly regarded by black consumers in townships, but this regard varies according to product category.
2. Opinion leaders play an important role in marketing communication in black townships.
3. Opinion leaders influence the purchasing of branded products in townships.
4. Opinion leaders play an important role in promoting brands in black townships.

## **1.7 RESEARCH METHODOLOGY**

Important aspects of the research methodology to be noted are the research design, sampling plan, data collection, data analysis, trustworthiness and ethical considerations of the study.

### **1.7.1 Research design**

The research design is seen as the plan to conduct research (Creswell, 2009:5). Three types of research designs exist, including qualitative, quantitative and a mixed method approach (Creswell, 2009:3). This study was approached qualitatively, applying the Grounded Theory method. Grounded Theory was used in order to identify themes from the data collected from the in-depth interviews (Berndt & Petzer, 2011:86). A qualitative approach was followed as in-depth and detailed information was needed on the role of opinion leaders in the promotion of brands amongst black consumers in townships (Wilkinson & Birmingham, 2003:43).

### **1.7.2 Sampling plan**

A non-probability purposive sample was used to select the five participants for the in-depth interviews. With purposive sampling, the sample members are chosen with a specific purpose in mind (Tustin, Ligthelm, Martins & Van Wyk, 2005:346).

Participants were identified and invited to participate in the study. Inclusion criteria for the participants comprised:

- black consumers who live in a township;
- consumers who will be willing to share their personal experiences;
- consumers who will be available to contact afterwards for cross-member checking; and
- consumers who are English and/or Afrikaans speaking.

Interviews were conducted in February and March 2011. The same interview agenda was used in every interview.

### **1.7.3 Data collection**

The in-depth interviews conducted with participants were audio-recorded with the permission of the participants. The researcher took field notes, including personal notes and observational notes, during each interview. Thereafter, the participants were asked to complete a short biographical questionnaire. Each recording was copied on a computer and labelled directly after each interview in order to ensure the anonymity of each participant. Data saturation was already reached after the third interview. Two additional interviews were conducted in order to ensure that no other important or new data was excluded from the study.

### **1.7.4 Data analysis**

The theme approach and open coding as discussed by Creswell (2009:183-190; 1994:153) were used to analyse the data. This approach involves the following steps:

- The data was firstly prepared for analysis. This included transcribing the interview recordings from oral language to written text.
- The data was then explored. This involved the researcher reading and re-reading the transcripts.
- Thereafter the researcher highlighted the most important parts of the textual data and wrote down any topics that seemed to re-occur.
- Thereafter the researcher started coding the data by using open coding. Coding takes place when codes are assigned to each section of the most important parts of the text.
- Themes, including main themes, subthemes and additional themes were then identified.

- The researcher then sought relationships between the identified themes.
- Thereafter a co-coder was used to ensure correspondence between the identified themes. The researcher then placed the direct quotations from the interviews under the appropriate themes in order to support that specific theme.
- Lastly, the researcher did member checking. This gave participants the chance to correct any misinterpretations that could have been made (Berndt & Petzer, 2011:95-97; Creswell, 2009:186; Hesse-Biber & Leavy, 2006:345, 347, 349, 350; Creswell, 2003:191-194; Daymon & Holloway, 2002:96; 237).

### 1.7.5 Trustworthiness

In order to ensure the trustworthiness of the research findings, Guba’s model for qualitative research was applied (Krefting, 1991; Lincoln & Guba, 1985). Credibility, transferability, dependability and confirmability were the criteria used to ensure the trustworthiness of the research findings (Krefting, 1991:217-221; Lincoln & Guba, 1985:219). An overview of the strategies used in order to ensure trustworthiness is illustrated in Table 1.

**Table 1: Strategies applied to ensure trustworthiness**

<b>Criteria</b>	<b>Strategy</b>	<b>Application</b>
Credibility	Data triangulation (Easterby-Smith, Thorpe & Lowe, 2002:146)	Data collection consisted of in-depth interviews and taking field notes (observational and personal notes). A literature search on topics such as branding, consumer behaviour and marketing communication was also conducted.
	Member checking	The respondents were asked to go through the transcripts and to correct any errors or misinterpretations that could have been made.
	Peer examination	The research process and the research



<b>Criteria</b>	<b>Strategy</b>	<b>Application</b>
		agenda were checked by the researcher's colleague.
Transferability	Nominated sample	Participants who were willing to share their township experiences, were nominated to participate in this research.
Dependability	Co-coder	A co-coder was used in order to identify the themes and to ensure correspondence between the identified themes, subthemes and additional themes.
Confirmability	Confirmability auditing	The raw data, including the audio recordings and field notes, can be made available for auditing.

### **1.7.6 Ethical considerations**

The participants were respected at all times during the data collection (Creswell, 2009:89). Participants were asked to sign consent forms before the interview was conducted to ensure that the participants were well informed about the study and the procedure that would be followed during the interviewing process (Creswell, 2009:89). The participants further agreed to participate in the study willingly and free of charge, and agreed that the data collected could be used in the research study.

## **1.8 DISCUSSION OF RESULTS**

In order to explore the role of opinion leaders in promoting brands in townships, in-depth interviews were conducted with five participants. Purposive sampling was used to select these participants. The majority of the participants were female (80%), whilst 20% were male. All of the participants were under the age of 25 years and African of cultural descent, comprising 40% Zulu, 20% Xhosa, 20% Sesotho and 20% Tswana.

As a result of the in-depth interviews, three main themes were identified. A detailed discussion of each follows below.

### **1.8.1 Theme 1: Black township consumers' evoked set of brands**

Five findings were identified regarding the black consumers' evoked set of brands. This finding refers to the most consumed branded products in townships.

#### **1.8.1.1 Fashion items**

It was mentioned by the participants that fashion item brands including Levis, Adidas, Nike, Aca Joe, Carvela, Giorgio Armani, Hugo Boss, Lacoste, Dolce and Gabanna, Guess and Puma are mostly bought in townships. The following quotations support this finding: "*When you put on casual wear Levis is the best, Guess jeans, Adidas, Nike, those brands...*" and "*Nike, Giorgio Armani, Hugo Boss and... there are a lot of them.*" A survey conducted by the Sunday Times (HDI Youth Marketeers & Monash South Africa, 2010:10-11) supports this finding. It was suggested in this survey that brands including Nike, Dolce & Gabanna, Guess, Adidas, Puma, Levis, Carvela and Aca Joe are some of the most popular brands amongst consumers.

#### **1.8.1.2 Household products**

In terms of household products, it was mentioned by the participants that consumers in black townships will rather buy the private-label brands of Shoprite and Pick n Pay as a result of affordability. Some consumers in townships cannot afford to buy branded household products. The following quotation illustrates this finding: "*I would buy the Shoprite brands or the Pick n Pay brands because they are still the same product, just a different name. With us really we do not look at brand names, we go with what we can afford and at this point the Shoprite and the no names work for us.*" and "*... not all products, it will probably be bread and milk at Pick n Pay and sugar at Shoprite. With clothes we sometimes look for cheaper things but we also probably put 5% - 10% into brands, but the rest of the percentage we stick to our local brands.*" and "*... we buy the right brand from Shoprite; fish oils; toiletpaper and all of that stuff. We are not always focused on store brands, for example when we buy rice we need to stay with Tastic even if it is expensive. We look at the sale paper and see which one is less, then we go for the lesser one.*" This is viewed as a unique finding as no literature was found to support this finding.

### **1.8.1.3 Motor vehicles**

The participants mentioned that the most bought motor vehicles in townships include BMW, Mercedes Benz and Audi. This finding is supported by the following quotations: *“I will always advise him to buy those branded images [including] Audi, BMW, not the TATA brands...”* and *“BMW is the first brand in terms of cars - the best brand. BMW and Mercedes Benz...”* This is supported by the survey conducted by the Sunday Times (HDI Youth Marketeers & Monash South Africa, 2010:10-11). BMW, Audi and Mercedes Benz are some of the most popular motor vehicle brands.

### **1.8.1.4 Cellphones**

It was mentioned by a participant that the most bought cellphone brand in townships is Blackberries. The following quotation supports this finding: *“At the moment in terms of cellphones it is a Blackberry, that is the best brand you can have.”* This is supported by the survey conducted by the Sunday Times (HDI Youth Marketeers & Monash South Africa, 2010:10-11). Cellphones including Blackberry, Nokia and Apple iPhone are viewed as some of the most popular cellphone brands.

### **1.8.1.5 Clothing retailers**

It was mentioned by the participants that consumers in black townships mostly purchase products from retailers including Woolworths, Mr Price and Sportscene. The following quotations support this finding: *“Black people do not want to shop at Pep Stores. It is degrading to their level in their community when they buy from Pep Stores. They will rather buy from Mr Price...”* and *“... your Nike’s [and all of those] sportswear [you will buy from] Sportscene or Total Sport ”* and *“... if you can see most people... there are people that still buy at Shoprite, but there are people going for Woolworths as its name is classy...”* This is also supported by the survey conducted by the Sunday Times (HDI Youth Marketeers & Monash South Africa, 2010:10-11). Fashion stores including Mr Price, Woolworths and Edgars are seen as the most popular fashion retailers. Sportscene and Adidas are viewed as the most popular sports retailers.

Additional to the aforementioned finding, it was mentioned by the participants that consumers in black townships buy from retailers that offer credit. The following quotations support this finding: *“They cannot afford to pay cash with the money they have, so they buy on credit so that they can pay at the end of the month, so they buy from Woolworths not considering the prices, but just to consume what they need and then pay at the end of the month.”* and *“Well it does, because you think that someone can afford to buy foods from Woolworths because of the quality and they are expensive but maybe not knowing that this person bought this thing on credit. They cannot afford, they do not have the money like cash money to buy from Shoprite.”* This is viewed as a unique finding as no literature was found to support this finding.

## **1.8.2 Theme 2: Influencers in black townships**

Four findings were identified regarding the influencers in black townships. A discussion follows.

### **1.8.2.1 Consumer-based influencers**

It was concluded that consumer-based influencers in township including friends, family and celebrities act as opinion leaders in order to influence consumers in black townships to buy branded products.

- **Friends as opinion leaders**

It was perceived by the participants that friends influence friends in black townships to buy branded products. The following quotations support this finding: *“It is friends and family...”* and *“Teenagers are influenced by friends and celebrities.”* This is supported by consumer behaviour literature. It is suggested that opinion leaders influence the buying behaviour of their friends through the provision of product and brand-relevant information (Hawkins & Mothersbaugh, 2010:240).

- **Family as opinion leaders**

It was perceived by the participants that family members influence other family members to buy branded products. The following quotations support this finding: “... *for instance, if my dad wants to buy a car, because I want my friends to see that at home we come from the right family I will always advise him to buy those branded images [including] Audi, BMW, not the TATA brands, because my friends will make fun of my family...*” and “... *Ja, family. You see your sister wearing this top and it looks nice on her [and then] you also want to have that kind of top.*” This is supported by consumer behaviour literature. It is suggested by Hawkins and Mothersbaugh (2010:240) that opinion leaders provide product and brand-relevant information to their family members in order to influence their consumption behaviour.

- **Celebrities as opinion leaders**

It was perceived by the participants that celebrities influence consumers in black townships to buy branded products including, clothing. The following quotations support this finding: “... *we respect celebrities in the black community a lot. We respect them because they [have a lot of influence] on our lifestyle, so whatever they usually use, you would use because we want to look like them.*” and “*with your clothing you are influenced by your celebrities, the people in the public eye, people you see on TV.*” This is supported in the consumer behaviour literature. It is suggested by Rousseau (2007:85) that celebrities are widely used by marketers as spokespersons for their products.

An additional conclusion regarding the aforementioned finding is that celebrities, including Hip Hop musicians (such as HHP), influence consumers in black townships to buy branded products. The following quotations support this finding: “...*these people I look up to like HHP in the music industry. These people influence me in terms of seeing what they are wearing, wanting to be there one day. I also want to wear that to feel that I am getting there.*” and “*I do not know if you know this guy, he sings Hip Hop. The way he dresses. Even young boys want to look like him.*” This is supported by the Sunday Times Generation Next Brand Survey (HDI Youth Marketeers & Monash South Africa, 2010:10-11) and Harris (2010:8). It was postulated that local celebrities, including DJ Cleo, DJ Fresh, DJ Sbu and HHP are viewed as role models.

### **1.8.2.2 Media-based influencers**

It was concluded that some media sources, including television and magazine advertisements influence consumers in black townships to buy branded products.

- **Television advertisements**

It was mentioned by the participants that television advertisements have some degree of influence on consumers in black townships regarding the purchasing of branded products. The following quotations support this finding: *“Yes it does, but not [a] 100%. Even though I have seen an advertisement, I still want to know what my friends and family are saying about that particular [brand]. Even though the advertisement is appealing, but because my family and friends are not really approving that particular brand, I will not buy it.”* and *“... sometimes it is what they see on TV.”* This is supported by research conducted by Rousseau and Saunders (1985) and Morris (1992:91-92). Consumers can be influenced by television advertisement.

- **Magazine advertisements**

It was mentioned by a participant that magazine advertisements do not influence consumers in black townships to buy branded products. The following quotation supports this finding: *“Advertisements also count. But we do not usually see advertisements, because we only see advertisements in newspapers and magazines and you find people not buying magazines because they cannot afford magazines because they feel they can buy something better with that R17 than Seventeen or Glamour because the Glamour, is expensive these days.”* This is disputed by literature. It is mentioned by Morris (1992:91-92) that magazine advertising is efficient when targeting consumers in urban markets.

### **1.8.2.3 Window displays**

It was mentioned by a participant that window displays influence consumers in black townships to buy branded products. The following quotation supports this finding: *“... or it could be at a store when they go around and window-shop to see if there is a sale...”* No

literature could be found to support this finding. Therefore, this finding is viewed as a unique finding.

#### **1.8.2.4 Recommendations (word-of-mouth) in black townships**

It was mentioned by the participants that recommendations from friends and family members influence consumers in black townships to buy branded products. The following quotations illustrate this finding: “... *the women [in townships] buy the groceries. So if they bought a product and the product worked for them, certainly they will refer it to another person. So it is all about recommendations in townships. If your product is good and one person has tested it, then you know it is going to be all over the township.*” and “... *with food, let us say it is dieting food, let us say it worked for me, these are the brands of products that I bought [and] I lost weight, I bought them for this much, and in that way a person can go if they want to lose weight... A person tells them and they can recommend.*” This is supported by consumer behaviour literature. It is mentioned that word-of-mouth communication through personal sources such as family and friends can influence consumer decisions (Hawkins & Mothersbaugh, 2010:240).

Additional to this finding it was mentioned that consumers trust the people they gain referrals from, rather than marketing people. The following quotations support this finding: “*It is because there is trust...*” and “...*because he trusts me more than someone coming there and promoting a product that he does not even know.*” No literature was found to support this finding. Therefore, this finding is viewed as a unique finding.

Another additional finding was that consumers have a long-term relationship with the people they gain referrals from. This is supported by the following quotations: “... *knowing that person for as long as they have known each other*” and “... *he knows me much longer than a promoter that just comes up their way and [promotes a product].*” No literature was found to support this finding. Therefore, this finding is viewed as a unique finding.

### **1.8.3 Theme 3: Motivation behind the purchasing of brands**

Four findings were identified in terms of consumers’ motivation behind the purchasing of brands in black townships. A discussion follows next.

### **1.8.3.1 Approval**

It was mentioned by the participants that consumers in black townships buy branded products to gain approval from other people in order to fit into the image of a social group. The following quotations support this finding: “... *people judge you according to what you wear. That is why you see most of us buying branded products. Even if it is fake, as long as we have that image [that] Nike or Adidas [provides us]. The group or other people will [then] approve us...*” and “... *nowadays, you are not well recognised if you do not wear those things.*” and “...*clothing is the one thing that people focus on, just to have branded things just to fit in with other people.*” This finding is supported by consumer behaviour literature. It is suggested that consumers might buy a certain brand of product in order to gain approval and status from other individuals. This is referred to as normative influence (Hawkins & Mothersbaugh, 2010:234).

### **1.8.3.2 Aspiration and admiration for celebrities**

It was mentioned by the participants that consumers in black townships buy branded products as a result of aspiration and admiration for celebrities. The following quotations support this finding: “... *the way they walk has changed now because they want their friends to see that they are close to that celebrity in terms of image and the brands the guy usually buys. Those young guys also buy those brands because they adore those celebrities. They are their role models in life.*” and “... *they want to make a statement, especially if that celebrity is wearing a nice T-shirt, you would also want something like that... just to look presentable because that celebrity was looking presentable and nice.*” and “...*these people influence me in terms of seeing what they are wearing, wanting to be there one day. I also want to wear that to feel that I am getting there.*” This is supported by both consumer behaviour literature and the survey conducted by the Sunday Times. Celebrities such as HHP are seen as role models (Harris, 2010:8; Sunday Times, 2010:0-11). Consumers purchase certain products that they believe are used by a desired group of individuals. This is viewed as aspiration reference group influence (Hawkins & Mothersbaugh, 2010:228).



### **1.8.3.3 Quality is not a motivating factor**

It was mentioned by a participant that consumers in black townships are not concerned about the quality of branded products. The following quotations support this finding: *“In terms of quality, we really do not mind that because we want the image of Adidas.”* and *“We are not really concerned about the quality.”* This is disputed in the literature. It is suggested by Morris (1992:101-102) that when marketers want to build their brand in black communities, is it important to emphasise the quality of the product. Keller (2008:6-9) also suggests that brands are a show of good quality products.

### **1.8.3.4 Brands as an image-symbol**

It was mentioned by the participants that consumers in black townships buy branded products to uphold a certain image (such as success in life). The following quotations illustrate this finding: *“... when you are at a certain age you must use certain brands to symbolise that you have reached whatever [you wanted to reach]. If you are 40 [or] 45 and you do not have a Mercedes Benz [it means] that you have not made it, you have failed.”* and *“[when driving a BMW] it means that you are now living a better life...”* and *“It means that you are living large, it means that everything is turning your way.”* This is supported by the branding literature. Keller (2008:6-9) suggests that brands are symbolic devices that consumers utilise in order to project their self-image.

Additional to this finding it was mentioned by the participants that when consumers in black townships see that another person is driving a BMW or Mercedes Benz, they will give that person respect. The following quotations support this finding: *“...as long as your peers can know that you are driving that BMW, they will respect you in that community.”* and *“... people will honour you, they will give you respect...”* This is viewed as a unique finding as no literature was found to support this finding.

Another additional finding concluded that consumers in black townships buy branded products to create the impression that they are not poor. It was mentioned that consumers in black townships are labelled as poor, and therefore they need to buy branded products in order to show other people that they are not. The following quotations support this finding: *“... you get people talking about other people saying that they are poor and that they cannot afford*

[branded products], *and then those people buy branded products to show them that they can afford...*” This is viewed as a unique finding, as no literature was found to support this finding.

## 1.9 CONCLUSIONS

From the research findings it can be concluded that the following branded products are mostly consumed by black consumers in townships:

- Fashion items, including Levis, Adidas, Nike, Aca Joe, Carvela, Giorgio Armani, Hugo Boss, Lacoste, Dolce and Gabanna, Guess and Puma.
- Household products, including private-label brands.
- Motor vehicles, including BMW, Mercedes Benz and Audi.
- Cellphones, including Blackberries.
- Clothing retailers, including Woolworths, Mr Price and Sports scene.

From the abovementioned it is evident that consumers buy branded fashion items (i.e. clothing). With household products, however, consumers do not seem to mind the consumption of private-label brands. These findings can be linked to the perception of black consumers in townships regarding brands as image-symbols. Brands are worn in order to portray a specific image within the community. When consumers consume household products in the privacy of their own homes, the aforementioned does not play a role anymore and therefore private-label household brands are consumed.

It can further be concluded that consumer-based influencers including friends, family and celebrities are viewed as opinion leaders in townships, and that these individuals influence black consumers to buy branded products. Media-based influencers include television advertisements and magazine advertisements. It was however mentioned that magazine advertisements do not influence consumers in townships to buy branded products as they cannot afford magazines. It was also mentioned that window displays encourage black consumers to buy branded products. Word-of-mouth also plays a critical role in townships as consumers recommend the brands they trust. Recommendations from friends or family members are accepted, as these individuals trust each other and have known each other for a long time.

It was also evident from the research findings that black consumers in townships buy branded products as these products fulfil specific roles. Consumers in black townships do not buy branded products because they can afford them, but they buy these products in order to portray a specific image and gain admiration and approval from other individuals within their community. Black consumers also aspire to be like certain celebrities and therefore they buy the brands that those celebrities wear. It was also suggested that quality is not a motivating factor for purchasing brands.

## **1.10 RECOMMENDATIONS**

Marketers need to recognise townships as a market with numerous profitable opportunities. It is evident from the research findings that the township market segment is unique in that marketing strategies used for other market segments (such as the white consumer market), will not be effective in the black township market. It is therefore recommended that marketers adapt their marketing campaigns according to the needs of this market.

In planning a marketing campaign to effectively reach the township target market, the following recommendations are made:

- The quality of the branded product should not be the main focus of the communication message. Marketers should rather focus on the social status and/or image an individual will achieve when purchasing the specific brand.
- Effective reach in townships does not occur through brand advertisements in magazines. It is therefore recommended that marketers utilise other marketing media to effectively reach this market. Television advertisements and window displays, in for example shopping malls, should be utilised optimally.
- Word-of-mouth communication in townships is a powerful marketing tool. Therefore, make use of opinion leaders. Utilise friends, family members and especially local celebrities, including musicians, to convince consumers to purchase branded products.

## **1.11 LIMITATIONS**

Five in-depth interviews were conducted. The relative small sample is due to the explorative nature of the study. More in-depth interviews will be conducted in order to contribute to the merit of the research.

Although a heterogeneous sample was sought for this study, all of the participants were under the age of 25 years. Therefore, the study cannot be generalised to the other age groups in South Africa.

## **1.12 FUTURE RESEARCH**

Traditional marketing communication methods used to communicate brand messages to the white consumer are believed to be unsuccessful within the black consumer market. From this study it has become evident that opinion leaders play a critical role in the spread of brand messages within townships. Despite the increasingly important role of opinion leaders in townships, limited and/or outdated literature exists on the market segment. No model, for example, exists regarding the use of opinion leaders in townships to promote the purchasing of branded products. Therefore, more in-depth interviews will be conducted in the near future with the intent to contribute to the merit of the research. Thereafter, a questionnaire will be developed in order to further investigate the use of opinion leaders in promoting brands in townships. The aforementioned will be done in order to develop a model that is applicable within the black township market. This model will illustrate how opinion leaders can effectively be utilised in order to influence the purchasing of branded products in townships.

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## **VARIABLES INFLUENCING E-BANKING CUSTOMER SATISFACTION**

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**Key words and phrases:** e-banking; customer satisfaction

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# **VARIABLES INFLUENCING E-BANKING CUSTOMER SATISFACTION**

## **ABSTRACT**

Many banking clients are not knowledgeable about the processes of electronic banking (e-banking) and therefore e-banking has not been adopted as fully by South African banking clients as those in other international banking industries. Despite a good deal of research on e-business and e-banking, it was found that not many studies focused on how banking clients perceive e-banking. Therefore, the purpose of this study was to investigate the variables influencing the customer satisfaction of e-banking clients.

A self-developed, structured questionnaire was distributed to 190 banking clients in the East London area, using convenience sampling. The paper revealed that, according to banking clients, all the selected e-banking variables, namely security, privacy, transaction processing speed, initial costs, monthly fees, quality of information, functionality of web sites and accessibility of services, influence the customer satisfaction of e-banking clients. It was found that the most important e-banking variables as perceived by banking clients were the security of clients' information and the quality of information received when making use of e-banking.

This study provides strategies to banks on how to adapt their e-banking function so as to increase the levels of customer satisfaction. Ultimately, these strategies could improve e-banking clients' satisfaction and increase the success of banks.

## **INTRODUCTION AND BACKGROUND TO THE STUDY**

Many businesses identified the use of the Internet as a growth opportunity that can lead to time and cost savings and increased efficiency. These benefits can be transferred to the customers and clients of businesses and therefore it is possible to improve customer satisfaction (Botha, Bothma & Geldenhuys, 2008:3-5). As stated by Botha *et al.* (2008:5), the availability of the Internet has changed forever the way business is conducted in the new economy. Therefore, if businesses want to remain competitive, they need to adapt to the new dynamic business environment of the Internet. Stated differently, technology and innovation in many industries, including the financial

services industry, are what daily drives the conducting and success of business. It is thus important that all industries should evaluate electronic business (e-business) activities as an option to create a competitive edge (Hasan, Baten, Kamil & Parveen, 2010:2719; Yap, Wong, Loh & Bak, 2010:28). Mora-Monge, Azadegan and Gonzalez (2010:773-774) agree that all businesses, regardless of the industry in which they operate, need to evaluate e-business opportunities for future growth and competitive purposes in the dynamic business environment.

E-business is defined as the buying, selling, marketing and servicing of products and services using the Internet, and it also includes transactions relating to procurement, logistics, supply chain management, payments, inventory control and order tracking (Combe, 2006:1). Papazoglou and Ribbers (2006:3) point out that e-business is not only the buying and selling of products and services, but includes the entire value chain from the purchasing of the product or service to customer relationship management and cooperation with business partners.

Various types of e-business can be found, such as business-to-consumer (B2C), business-to-business (B2B) and mobile business (M-business). One important development of e-business is that of e-banking (using a computer terminal with Internet access to receive banking services). Banking services through electronic channels has revolutionised the financial services industry, and e-banking has become a popular alternative for conducting banking actions in the 21<sup>st</sup> century (Hasan *et al.*, 2010:2718). By definition, e-banking is a variety of banking options available where funds are transferred through an exchange of electronic signals between financial institutions and their clients (Baker, Espinal, Purcell, Vuksanovic, Pognon, Hernandez, Carroll & Benoit, 2011:49). E-banking options include the use of automated teller machines (ATMs), the Internet, telephones and cellular telephones (M-business) for conducting banking transactions. The first e-banking transactions in their most basic form were utilised in the South African banking industry in 1983 (April & Cradock, 2000). The e-banking segment is continuously growing, and will soon replace traditional forms of banking (Mia, Rahman & Uddin, 2007).

The banking groups dominating the South African banking industry with a combined market share of 84%, consist of Amalgamated Banks of South Africa (ABSA), First National Bank (FNB), Standard Bank and Nedbank (South African Reserve Bank, 2008:55). These “big four”

banks have realised that e-banking is imperative to business enhancement, and in terms of e-banking services provided, Standard Bank is the market leader with ABSA as the second largest e-banking institution among the four (*SA bank with the biggest online presence*, 2010).

E-banking should be used for many banking functions to increase clients' convenience when conducting financial and banking transactions. The functions of e-banking should include the recording of electronic deposits and withdrawals by clients; providing instant current balance information and periodic statements of accounts; indicating possible overdrafts; stopping payments and holding funds (Wahab, Noor & Ali, 2009:1-4). E-banking was developed to provide many advantages for clients of financial institutions, whether they are businesses or individuals. The main advantage e-banking provides for clients is that traditional transactions that would normally take place at a banking office or branch, can be done by e-banking "anytime and anywhere" (Hasan *et al.*, 2010:2719; Kabanda, Brown, Nyamakura & Keshav, 2010; Neethling, 2006).

In spite of the many advantages that e-banking offers, clients do not receive the minimum level of service delivery that they expect from their banks. Many South Africans, especially the youth, have quickly adopted the use of e-banking, but many are still nervous of it and are therefore not making use of this banking option. According to Nath, Schrick and Parzinger (2001) and Wahab *et al.* (2009:4), e-banking has revolutionised the way of conducting business and personal banking transactions, but it is still a phenomenon with many barriers and issues to resolve in order to increase user adoption of the services and to provide customer satisfaction. The main concerns of clients include security and privacy in e-banking channels; speed of transaction processing; lack of personalised attention; usability of e-banking options; costs of transactions; access to paper money and limited functionality (Green & Van Belle, 2001; Hasan *et al.*, 2010:2719; Poon, 2007; Singh, 2004:190; Waha, *et al.*, 2009:1-4; Yap *et al.*, 2010:30).

With regard to clients' major concerns on security of e-banking, clients worry about unauthorised access into banking systems, the protection of personal data and the risk of fraudulent transactions (Baker *et al.*, 2011:49; Horn, 2002; Wahab *et al.*, 2009:4). According to April and Cradock (2000) and Baker *et al.*, (2011:49), many clients raise the issue of cybercrime and fraud.

They are concerned that their personal information may be passed on to a third party with or without the knowledge of the banking institutions. Klaassen (2007) and Krishnamurthy (2003) state that the speed with which transactions are completed is important to clients, and web sites should be designed in such a manner that the downloading time of the information required is fast.

Another issue is that of initial costs and fees of transactions. “The costs of e-banking” are the requiring of the hardware necessary to engage in e-banking, and its fees are the transactional costs incurred when using e-banking (Cracknell, 2004; Poon, 2007). Clients are also cautious about the quality of information on web sites because many fraudulent activities can take place on the Intranet (Canzer, 2003; Wahab *et al.*, 2009:5). Furthermore, the information provided on web sites should be up-to-date and clients should be able to verify the correctness of the information provided (Poon, 2007; Wahab *et al.*, 2009:4).

The usability and functionality of web sites are also issues of great importance for clients. The ease of navigating web sites and finding the information required is of the utmost importance to clients (Beynon-Davies, 2004; Poon, 2007). With regard to accessibility, clients are concerned that the banking services might be temporarily offline for upgrading or maintenance purposes, and therefore the required transactions and queries cannot be made (Cracknell, 2004; Poon, 2007). It is evident that these concerns can be regarded as possible variables influencing e-banking clients’ customer satisfaction levels.

Clearly, e-banking is changing the way in which clients traditionally conducted banking transactions. In order for e-banking service providers to succeed, they must investigate clients’ perspectives about the variables influencing the use and adoption of e-banking. Banks should make adjustments and ensure improvements to provide quality e-banking services which will result in increased customer satisfaction levels. Overall e-banking must add value to clients’ banking interactions and experiences, and only then will customers be willing to use the e-banking option (Neethling, 2006; Wahab *et al.*, 2009:4).

## LITERATURE OVERVIEW

Advantages of e-banking include 24-hour accessibility; speedy transactional execution; innovative, high-quality, and extended information; cost savings on transactions and increased financial control by clients (Green & Van Belle, 2001; Hasan *et al.*, 2010:2719-2720). E-banking is a form of B2C e-business, and the benefits of engaging in e-business activities should be evident to clients. E-banking benefits include less expensive products and services, quick online searches for information on various products and services, transactions which can be conducted 24x7x365, and the availability of relevant and detailed information quickly without standing in queues, at a low cost (Hasan *et al.*, 2010:2725; Jackson, Harris & Eckersley, 2003; Kabanda *et al.*, 2010; Turban, Leidner, McLean & Wetherbe, 2008). Singh (2004:187) indicates that the e-banking option provides clients with more information quickly, and e-banking is therefore useful for clients as they do not have to wait in queues to get banking services.

However, despite these possible e-banking benefits, according to Green and Van Belle (2001), e-banking clients have certain service expectations. E-banking clients' expectations of service excellence include:

- high service levels both online and offline;
- integration of information across banking options;
- lower transactional costs;
- personal contact independent of the banking option;
- added value for clients in terms of the product and service offering; and
- if making use of the Internet, web site functionality and speed as well as high quality web site information.

Clients' customer satisfaction will be improved if banking institutions can meet these service expectations. "Customer satisfaction" refers to the client's feelings that services rendered have met or exceeded expectations. One of the key elements of customer retention is customer satisfaction (Brink & Berndt, 2008:42, 58). In other words, in order to retain clients, it is important for banking institutions to focus on customer satisfaction, by considering the various service excellence expectations of e-banking clients.

These service expectations underlie various e-banking concerns for clients. Major concerns are the *security* of their personal account details, codes or passwords and fraudulent transactions (Kabanda *et al.*, 2010). Banks have security measures in place for e-banking transactions, but these measures are never guaranteed. In practice, e-banking fraud numbers are low, but these few cases are still of concern to clients. (Baker *et al.*, 2011:49; Kabanda *et al.*, 2010; Neethling, 2006; Singh, 2004:189; Wahab *et al.*, 2009:5). Therefore proof needs to be given to e-banking clients that web sites are secure and that adequate measures are in place to protect their personal information.

Kalakota and Whinston (1997) state that e-banking clients expect five security features when conducting e-banking, namely privacy, authenticity, integrity, availability and blocking. *Privacy* is described as the capability to control who has access to information under certain conditions (Beynon-Davies, 2004). Ethical issues are linked to privacy as there are many “infobrokers” who trade customer and client information to businesses in highly competitive markets (April & Cradock, 2000).

E-banking service providers should also ensure *speedy transactions* for clients when developing e-banking web sites (Green & Van Belle, 2001; Klaassen, 2007; Krishnamurthy, 2003; Poon, 2007). Klaassen (2007) states that clients using mobile e-banking should not struggle to obtain requested information as a result of excessive browsing.

With the development of cell phone technology, more people in all income groups have access to e-banking. Therefore, to make e-banking more affordable, careful attention should be given to the *initial costs* and *monthly fees* of e-banking services (Agrawal, 2009). Agrawal (2009) suggests that when determining the fees of e-banking services, banking institutions should consider a fixed fee per transaction rather than a fee expressed as a percentage per transaction.

The *ease of usability* of e-banking channels is another concern for clients. Executing electronic transactions over the Internet on a personal computer or cell phone can be daunting, especially when one has limited knowledge on the processes. The processes must be easy to understand and conduct. The Internet is a widely used medium which sometimes can cause frustration to clients

because of slow downloading and processing times as well as regular breakdowns in connections owing to limited bandwidth. This is especially true when clients are using mobile connections via cell phones (mobile e-banking). (Green & Van Belle, 2001; Klaassen, 2007; Krishnamurthy, 2003; Poon, 2007). E-banking service providers must therefore ensure the functionality and usability of e-banking channels.

The *quality of information* provided on web sites needs to be of the highest standard, meaning that information should be in real-time and up-to-date (Hasan *et al.*, 2010:2719). With all the cybercrime taking place on the Internet and via electronic mail (e-mail), clients need to be assured that they are in fact dealing with the actual bank and not with a crime syndicate (Canzer, 2003). Linked to the quality of information received from a bank and its employees, when making use of e-banking services, the issue of personalised attention is of concern to clients. In traditional methods of banking, a client deals face-to-face with a consultant, but with e-banking clients give instructions to the bank without personal contact when using the Internet.

“Availability” refers to the *accessibility* of information and communication services, implying that clients need to know when these services will be available and when not. “Blocking” is required when unwanted information or intrusions can be stopped (Hasan *et al.*, 2010:2719; Kalakota & Whinston, 1997; Poon, 2007).

Overall e-banking service providers must ensure customer satisfaction through combating the concerns that clients have. Therefore, research needs to be done to establish how banking clients in general perceive e-banking, in order to identify the critical variables that prevent banking clients from going online and experiencing customer satisfaction.

## **PROBLEM STATEMENT AND RESEARCH OBJECTIVES**

Globally, today people are more technologically advanced and have fast-track lives. This means that service providers, including banks, should implement strategies and technologies which will be in line with the technological adaption level of clients (Hasan *et al.*, 2010:2718; Nath *et al.*, 2001). Banking industries globally attempt doing this through e-banking.

E-banking has been a widely researched topic for many years and this research will continue because of the innovations in the technology used in e-business in general and in e-banking specifically. One of the benefits of e-banking is the convenience of not having to carry around large amounts of money. Payments and transfers can be made at the click of a button without entering a bank office or branch. As a result the number of clients choosing to do their banking electronically is increasing rapidly. (Neethling, 2006). This study will investigate various concerns regarding e-banking to determine which variables influence customer satisfaction for e-banking clients.

### **Primary objective**

The purpose of this study is to determine the e-banking aspects affecting clients' use of e-banking in order to increase their levels of customer satisfaction. Therefore, the primary objective is to investigate the e-banking variables influencing the customer satisfaction of e-banking clients.

### **Secondary objectives**

To assist in achieving the primary objective, the following secondary objectives are formulated:

- to conduct a literature overview on e-banking in South Africa;
- to empirically investigate clients' perceptions of e-banking by focusing on eight identified variables; and
- to make recommendations to banks on managing and delivering e-banking services to increase customer satisfaction levels.

## **RESEARCH METHODOLOGY**

This study aims at determining whether eight e-banking aspects (independent variables) have an influence on the customer satisfaction (dependent variable) of e-banking clients. In order to test the constructed hypotheses, as well as to analyse and interpret the gathered data quantitatively, this study follows a quantitative approach (Gray, 2009:57; Neill, 2007; Salkind, 2010:1125-1126; Zikmund, 2010:94).



The research design includes the use of secondary and primary sources that assist in achieving the research objectives. The secondary sources of information used include books, journal articles and the Internet. The primary research consists of an empirical investigation, conducted by focusing on the eight identified variables to establish whether they have an influence on e-banking satisfaction levels of clients in the East London area of the Eastern Cape.

The population of the study includes people of all ages with a bank account, whether or not they are currently using e-banking services in East London. Convenience sampling was used to determine the sample. A sample size of 210 was used in the data collection process for the study, but only 190 of the completed questionnaires were usable. Therefore 90.48% of the questionnaires collected could be used in the study.

A structured questionnaire was developed to extract the primary research data. The questionnaire consisted of three sections. Section A gathered demographic data of banking clients and their current banking methods, section B gathered the perceptions of clients on e-banking aspects that were linked to the hypotheses of the study, and section C posed questions on e-banking customer satisfaction. Both sections B and C used a five-point Likert-type scale ranging from “strongly disagree” (1) to “strongly agree” (5). For the purpose of this study no specific weight allocation was assigned to the different questionnaire items in each of the identified e-banking variables. The validity of the measuring instrument was ensured as experts in the fields of marketing and e-business assisted with the questionnaire design.

The computer programs Microsoft Excel and Statistica (Version 9) were used to analyse the collected data. Statistical data analyses were performed in four phases as the following statistics were calculated: descriptive statistics, Cronbach Alpha correlation coefficients, Pearson product moment correlation coefficients (hereafter referred to as Pearson correlation coefficients) and simple linear regression.

- Descriptive statistics were calculated to summarise the sample data distribution. For example, means and frequency distributions were calculated. Salkind (2010:8) and Zikmund (2003) confirm descriptive statistics as a description or summary of information

about a population or sample. For this study, the descriptive statistics provided a summary of the information for the sample.

- Cronbach Alpha correlation coefficients were used to determine the reliability of the measuring instrument. A Cronbach Alpha correlation coefficient will generally increase when the correlation between items or variables increases. Cronbach Alpha correlation coefficients range from 0 to 1, and for a measuring instrument to be regarded as reliable, the test results should be greater than 0.70. (Hair, Babin, Money & Samouel, 2003; Salkind, 2010:162). For this study, a Cronbach Alpha correlation coefficient of 0.7 and above was regarded as acceptable.
- Pearson correlation coefficients were calculated. According to Hair *et al.* (2003) and Salkind (2010:46, 264-265), the Pearson correlation coefficient measures the association between two variables, and the measurement ranges from -1.00 to +1.00. A Pearson correlation coefficient test result of zero indicates no association between the two variables. The Pearson correlation coefficient,  $r$ , is a measure of the strength of the relationship between two variables, namely each of the independent variables (the eight predetermined e-banking variables) with the dependent variable (customer satisfaction).
- Simple linear regression analyses were conducted. The coefficient of determination,  $r^2$ , is a measure of how well the regression model (the eight predetermined e-banking variables) determines the dependent variable (customer satisfaction) (Mendenhall & Sincich, 2003; Salkind, 2010:48-49). The simple linear regression analysis enabled the researchers to measure the mathematical variance of the relationships between each of the predetermined independent variables (the eight e-banking variables) and the dependent variable (customer satisfaction) and to test the constructed hypotheses.

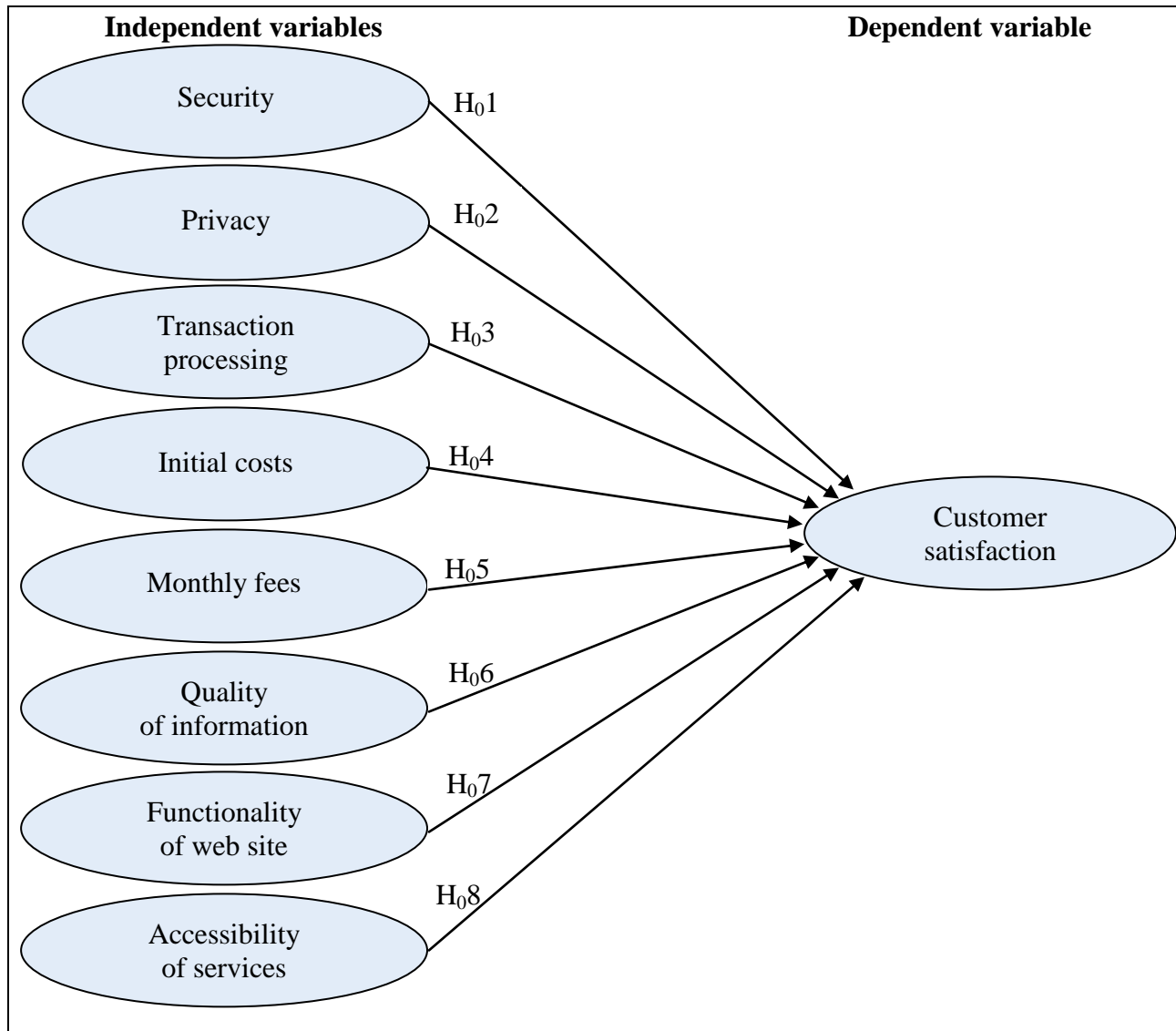
## **HYPOTHESES**

Two groups of hypotheses, null and alternative hypotheses, were constructed with regard to the relationships between the independent variables (the eight e-banking variables) and the dependent variable (customer satisfaction). The following null and alternative hypotheses regarding clients' perceptions on e-banking and their customer satisfaction were formulated:

- H<sub>0</sub>1: There is a relationship between e-banking security and customer satisfaction.  
H<sub>A</sub>1: There is no relationship between e-banking security and customer satisfaction.
- H<sub>0</sub>2: There is a relationship between e-banking privacy and customer satisfaction.  
H<sub>A</sub>2: There is no relationship between e-banking privacy and customer satisfaction.
- H<sub>0</sub>3: There is a relationship between e-banking transaction processing speed and customer satisfaction.  
H<sub>A</sub>3: There is no relationship between e-banking transaction processing speed and customer satisfaction.
- H<sub>0</sub>4: There is a relationship between initial e-banking costs and customer satisfaction.  
H<sub>A</sub>4: There is no relationship between initial e-banking costs and customer satisfaction.
- H<sub>0</sub>5: There is a relationship between monthly e-banking fees and customer satisfaction.  
H<sub>A</sub>5: There is no relationship between monthly e-banking fees and customer satisfaction.
- H<sub>0</sub>6: There is a relationship between quality of e-banking information and customer satisfaction.  
H<sub>A</sub>6: There is no relationship between quality of e-banking information and customer satisfaction.
- H<sub>0</sub>7: There is a relationship between the functionality of e-banking web sites and customer satisfaction.  
H<sub>A</sub>7: There is no relationship between the functionality of e-banking web sites and customer satisfaction.
- H<sub>0</sub>8: There is a relationship between the accessibility of e-banking services and customer satisfaction.  
H<sub>A</sub>8: There is no relationship between the accessibility of e-banking services and customer satisfaction.

Figure 1 is an illustration of the e-banking customer satisfaction framework that was used to test the hypotheses in the empirical investigation.

**FIGURE 1**  
**THEORETICAL FRAMEWORK FOR E-BANKING CUSTOMER SATISFACTION**



## **EMPIRICAL RESULTS**

In the empirical results section, the biographical and demographical results of the respondents will be discussed, followed by the mean scores and standard deviation scores for the predetermined variables of the research. Next, the Cronbach Alpha correlation coefficients are provided. Lastly, the Pearson correlation coefficients and the simple linear regression results will be discussed.

### **Biographical and demographical results of respondents**

Information regarding the respondents' gender, age, population group, banks used, banking transactions conducted, banking service options and usage frequency of banking service options was collected. The biographical and demographical data is summarised in Table 1.

From Table 1, it can be observed that 44% of the respondents were male and 56% were female. Nearly half of the respondents (49%) were in the age group of 20-29 years. More than two thirds of respondents were from the black population group at 69%, followed by the white population group at 15%. Approximately 40% of the respondents indicated that they banked with FNB, followed by 36% of the clients banking with ABSA.

From the banking transaction options mentioned, the majority (95%) of the respondents withdrew money, 73% deposited money, 60% checked balances, 57% transferred money, 52% bought airtime, and 48% would pay accounts using e-banking service options. The majority of the respondents (95%) indicated using ATMs as banking service options. Nearly two thirds of the respondents (64%) used over-the-counter (branch) banking services, followed by 33% using Internet banking services and 31% using cell phone banking. The least-used banking service option was telephone banking, with only 9% of the respondents using this option.

**TABLE 1**  
**BIOGRAPHICAL AND DEMOGRAPHICAL DATA OF RESPONDENTS**

<b>Items</b>		<b>Frequency</b>	<b>Percentage (%)</b>
<b>Gender</b>	Male	84	44
	Female	106	56
	<b>Total</b>	<b>190</b>	<b>100</b>
<b>Age category</b>	<20	22	12
	20-29	93	49
	30-39	36	19
	40-49	25	13
	50-59	14	7
	60+	0	0
	<b>Total</b>	<b>190</b>	<b>100</b>
<b>Population group</b>	Asian	7	4
	Black	132	69
	Coloured	20	11
	White	28	15
	Not willing to say	3	1
<b>Total</b>	<b>190</b>	<b>100</b>	
<b>Bank</b>	ABSA	68	33
	FNB	76	37
	Nedbank	18	8
	Standard Bank	37	18
	Other	9	4
<b>Total</b>	<b>208*</b>	<b>100</b>	
<b>Banking transactions</b>	Deposits	138	22
	Withdrawals	180	28
	Transfers	108	17
	Pay accounts	92	14
	Check balances	114	18
	Other	5	1
<b>Total</b>	<b>637*</b>	<b>100</b>	
<b>Banking service options</b>	ATM	181	41
	Cell phone banking	59	13
	Internet banking	62	14
	Telephone banking	18	4
	Over-the counter (branch)	121	28
<b>Total</b>	<b>441*</b>	<b>100</b>	

\*The respondents could select more than one option, therefore the total is greater than n=190.

Table 2 indicates the clients' usage frequency of the banking options.

**TABLE 2**  
**CLIENTS' USAGE FREQUENCY OF BANKING OPTIONS**

<b>Banking options and usage</b>		<b>Frequency</b>	<b>Percentage (%)</b>
<b>ATM</b>	Never	9	5
	Once a month	27	14
	Once in three weeks	40	21
	Once in two weeks	46	24
	Once a week	68	36
	<b>Total</b>	<b>190</b>	<b>100</b>
<b>Cell phone banking</b>	Never	130	68
	Once a month	17	9
	Once in three weeks	13	7
	Once in two weeks	16	9
	Once a week	14	7
	<b>Total</b>	<b>190</b>	<b>100</b>
<b>Internet banking</b>	Never	125	66
	Once a month	26	13
	Once in three weeks	11	6
	Once in two weeks	17	9
	Once a week	11	6
	<b>Total</b>	<b>190</b>	<b>100</b>
<b>Telephone banking</b>	Never	166	87
	Once a month	14	7
	Once in three weeks	5	3
	Once in two weeks	4	2
	Once a week	1	1
	<b>Total</b>	<b>190</b>	<b>100</b>
<b>Over the counter (branch)</b>	Never	65	34
	Once a month	79	42
	Once in three weeks	14	7
	Once in two weeks	17	9
	Once a week	15	8
	<b>Total</b>	<b>190</b>	<b>100</b>

With regard to the frequency of the banking service options used, 36% of the respondents used ATMs at least once a week, 24% once in two weeks, 21% once in three weeks, 14% once a month and 5% never used ATM's. Only 7% of the respondents used cell phone banking at least once a week, 8% once in two weeks, 7% once in three weeks, 9% once a month and 68% of the respondents never used cell phone banking. Of all the respondents, only 6% used Internet banking at least once a week, 9% once in two weeks, 6% once in three weeks, 14% once a month

and 66% of the respondents never used Internet banking. With regard to telephone banking, only 1% of respondents made use of Internet banking at least once a week, 2% once in two weeks, 3% once in three weeks, 7% once a month and 87% of the respondents never used land-line telephone banking services. Lastly, 8% of the respondents used over-the-counter (branch) services at least once a week, 9% once in two weeks, 7% once in three weeks, 42% once a month and 34% of the respondents never used over-the-counter banking services.

### Mean and standard deviation scores of pre-determined variables

The mean scores reveal the extent to which the respondents in general, agreed or disagreed with certain statements. According to the literature, if the standard deviation is high, the values are more dispersed (Babbie, 2010:431; Mendenhall & Sincich, 2003). This study's mean scores and standard deviations are indicated in Table 3 below.

**TABLE 3**  
**MEAN AND STANDARD DEVIATION SCORES OF VARIABLES**

Variable	Mean	Standard deviation
Security	3.127	0.495
Privacy	3.146	0.626
Transaction processing	3.330	0.489
Initial costs	<b>3.076</b>	0.583
Monthly fees	3.122	<b>0.413</b>
Quality of information	3.421	0.514
Functionality of web site	3.412	0.516
Accessibility of services	3.505	0.530
Customer satisfaction	<b>4.113</b>	<b>0.686</b>

The *customer satisfaction* variable obtained the highest mean score of 4.113 and the *initial costs* variable obtained the lowest mean score of 3.076. The mean scores, all above level 3 (neutral), indicate that the respondents agreed that changes in each of the eight e-banking variables could improve *customer satisfaction*. The high standard deviation scores, illustrated in Table 3, show that the respondents varied extensively with regard to their viewpoints on the e-banking variables and customer satisfaction. The highest standard deviation score was that of *customer satisfaction*



at 0.686 and the lowest was *monthly fees* at 0.413. These standard deviations show that respondents generally differed in their viewpoints on the *customer satisfaction* and generally had similar viewpoints regarding the *monthly fees* variable.

### Correlation coefficient scores of pre-determined variables

The Cronbach Alpha correlation coefficients, Pearson correlation coefficients and coefficient of determination (simple linear regression) results are indicated in Table 4.

**TABLE 4**  
**CRONBACH ALPHA CORRELATION COEFFICIENTS, PEARSON CORRELATION COEFFICIENTS AND COEFFICIENT OF DETERMINATION RESULTS**

Variable	Cronbach alpha	Pearson correlation ( $r$ )	Coefficient of determination ( $r^2$ )
Security	0.998	<b>0.994</b>	<b>0.989</b>
Privacy	0.998	<b>0.989</b>	<b>0.978</b>
Transaction processing	0.998	0.993	0.985
Initial costs	<b>0.996</b>	0.993	0.985
Monthly fees	0.998	0.991	0.982
Quality of information	<b>0.999</b>	0.993	0.986
Functionality of web site	<b>0.999</b>	0.992	0.985
Accessibility of services	0.998	0.992	0.985
Customer satisfaction	<b>0.999</b>	-	-

All the Cronbach Alpha correlation coefficients were above the recommended 0.7 (Hair *et al.*, 2003), the highest of which were for the variables *quality of information* (0.999); *functionality of web sites* (0.999) and *customer satisfaction* (0.999). The lowest Cronbach Alpha correlation coefficient, although still above 0.9, was for *initial costs* (0.996). All the variables, both independent and dependent, can be regarded as highly reliable with *quality of information*, *functionality of web sites* and *customer satisfaction* as the most reliable variables.

The empirical results indicate that there were strong positive relationships between all the independent variables (the eight predetermined e-banking variables) and the dependent variable

(customer satisfaction). It was observed that the strongest positive relationship existed between the *security* of e-banking and *customer satisfaction* ( $r = 0.994$ ). In other words, if e-banking security improved, customer satisfaction with e-banking services would increase. The weakest, yet highly significant, positive relationship existed between the e-banking *privacy* of personal and account information and *customer satisfaction* ( $r = 0.989$ ). Therefore, if the privacy of information improved, e-banking customer satisfaction would increase.

The structural relationship between *security* and *customer satisfaction* obtained the highest value of 98.9%, as can be seen in Table 4. The lowest structural relationship regression result of 97.8% was obtained between *privacy* and *customer satisfaction*. Therefore, the coefficient of determination ( $r^2$ ) shows that each of the selected e-banking variables explained more than 97.8% of the variance in e-banking customer satisfaction.

Therefore, one can conclude that the researchers fail to reject all the null hypotheses ( $H_{01} - H_{08}$ ) and all the alternative hypotheses ( $H_{A1} - H_{A8}$ ) are rejected, because positive relationships existed among each of the eight predetermined independent variables and the dependent variable.

## **CONCLUSIONS AND RECOMMENDATIONS TO BANKS**

As evident from the empirical results, all eight identified e-banking variables significantly influenced banking clients' customer satisfaction. Therefore, if these various e-banking variables can be improved, then e-banking customer satisfaction will increase. The empirical results show that maintaining security when providing e-banking services has a significant influence on banking clients' customer satisfaction. Banking institutions offering e-banking services must continuously update and maintain security measures and protocols for e-banking services in order for clients to feel confident that their information and transactions are safe at all times. To ensure e-banking security, security breaches in terms of the theft of personal information or processing of fraudulent transactions must be dealt with as a high priority for banks. There must be 24-hour emergency service available for clients to report problems and/or suspicious activity in their bank accounts. By increasing security on e-banking services, more people may adopt this means of doing banking, and experience higher levels of customer satisfaction. For example, slogans from

businesses ensuring security, such as “VeriSign Secured”, should be visible to e-banking clients to indicate that the banking institutions’ web sites are secure.

Of all the e-banking variables selected, the privacy of personal and account information had the least significant influence on customer satisfaction, compared to the other e-banking variables. Regardless of this finding, privacy of personal and account information had an influence on customer satisfaction. Clients must be assured that their personal information cannot be altered and used without their permission by bank employees or other external parties. Privacy concerns, together with ways of preventing the illegal use of personal information, must always be communicated to banking clients to ensure that clients are knowledgeable about this matter. In order for a client’s personal information to be altered, client approval must be provided. Additionally, when approving changes in personal information, measures must be undertaken to verify client ownership of the specific bank account. This can be done by asking the client a number of questions as a means to verify ownership of the account.

The empirical results indicated that the speed of transaction processing has a strong influence on customer satisfaction. E-banking services are supposed to provide a quick method of conducting transactions and receiving banking services. Therefore, banks should ensure that the best processes and software are used to ensure fast transaction processing. For clients using Internet banking, banks should provide information on how clients can improve their hardware in order to increase their transaction processing speed. If there are problems with the e-banking services, clients must always be informed of this timeously. Banking clients can be sent emails or text messages, depending on their usage frequency, to inform them of disturbances in the e-banking service provision.

The initial costs and monthly fees for using e-banking services also have a significant influence on banking clients’ satisfaction. According to banks, using e-banking services is less costly to clients than conducting over-the-counter transactions. Many banking clients may not be aware of these cost savings, therefore banks should provide clear and understandable explanations of the e-banking costs and fees. Banks should highlight the most cost-effective method of e-banking. Mobile banking may have lower initial costs than Internet banking. In addition, banks should

provide brochures with e-banking fee information, which can be mailed, e-mailed and distributed by bank branches. Additionally, banks should provide and advise clients on more cost-effective banking options or packages.

The quality of banking information received when making use of e-banking services has a vital influence on banking clients' satisfaction. Good, reliable banking information is very important to banking clients as it has a major influence on their financing and banking decisions. In order for banking institutions to provide reliable and high-quality information, it must always be up-to-date and should be easy for all clients to understand. Furthermore, electronic information must be monitored constantly, be secured and be altered only by the banks' webmasters.

The functionality of bank web sites is a significant variable influencing e-banking customer satisfaction. The use of electronic mediums for conducting banking transactions requires that the e-banking options should be quick and easy to use. This is especially important for the use of web sites for Internet banking. The empirical results also indicate that the accessibility of e-banking services has a significant influence on e-banking customer satisfaction. This shows that e-banking provides banking clients with the convenience of conducting banking transactions without having to visit a physical branch, and this results in increased levels of customer satisfaction. Banks should ensure easy access for clients by implementing well-designed and properly managed e-banking facilities. To ensure the functionality of e-banking web sites, the web sites must have a simple design which allows easy navigation through the web site pages. Thus, web sites should be user-friendly for clients. Web sites should not have any unnecessary animations or graphics, as these can increase downloading times. Furthermore, e-banking web sites' icons and click-options should be functional at all times.

Banks should ensure that they are quick in responding to technical problems occurring with e-banking services. They should inform clients of problems occurring and provide them with a time estimation of how long it will take to rectify the problem, so that clients can seek alternative service options. The upgrading or maintenance of e-banking programs, software and equipment should be conducted at times when the usage frequency of e-banking options is low. Furthermore, a temporary system that can be reconciled with the main system (a parallel system)

could be set up for use when the main system is down, so as not to inconvenience banking clients.

To conclude, in order for banks to compete as e-banking service providers internationally, banking clients' perceptions on e-banking, in particular on the selected e-banking variables tested in this study, must be considered by banks. By doing so, banks will provide efficient and effective services via electronic mediums, address e-banking concerns, and ultimately increase the customer satisfaction levels of clients.

### **Acknowledgements**

- A special word of thanks to Ms Nombulelo Nkuzo, for her assistance with the literature overview and interpretation of the empirical results.

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# WHAT MOTIVATES CONSUMERS TO VISIT THE NATIONAL ZOOLOGICAL GARDENS OF SOUTH AFRICA?

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**Keywords:** *motives, education, recreation, orientation, zoo*

# WHAT MOTIVATES CONSUMERS TO VISIT THE NATIONAL ZOOLOGICAL GARDENS OF SOUTH AFRICA?

## ABSTRACT

Consumers have various motives for visiting a zoo. These motives can make a significant contribution to the management and marketing strategies of zoos if they are studied, understood and acted upon. This study aims to determine whether visitors are motivated to visit the zoo for recreational or educational purposes, and whether their motives are geared towards their own benefit or to the benefit of others. The research was conducted in order to determine the motives of visitors to the National Zoological Gardens of South Africa by means of a quantitative survey using quota sampling (intercept method at zoo entrance). A total of 200 completed questionnaires were obtained measuring the main constructs using a 5-point Likert scale with 26 scale items. Findings indicate that respondents view recreational motives as more important than educational motives. In addition, more people visit the zoo to promote the welfare of others (altruistic orientation) than to have a self-directed zoo experience (intrinsic orientation). Findings suggest that management of zoological parks should ensure that their parks offer recreational value focusing on activities and experiences for group members.

## INTRODUCTION

Zoos have fulfilled a number of different and sometimes conflicting roles according to Ballantyne, Packer, Hughes and Dierking (2007:367). Zoos became sites for recreation and leisure (Ballantyne *et al.*, 2007:368). The leisure and recreational opportunities that zoos and wildlife tourism activities present contribute to their ongoing popularity (Woods in Ballantyne *et al.*, 2007:368).

Zoological parks are very dependant on the financial support from visitors for long-term survival. It is therefore imperative for the management of such parks to know and understand what motivates and inspires the public to visit a zoo. It is also important to acknowledge that people have different reasons for visiting a zoo and if their expectations are not at least met, public interest and support will decrease over time.

Turley (2001:2) states that some visitors consider a visit to the zoo as a day for themselves; where they can unwind in nature or broaden their knowledge of the different animal species (intrinsic motives). Other people visit the zoo for the sake of someone else; be it their children, family or friends whom they wish to spend time with (altruistic motives). Most zoos, aquariums and museums have a main objective of educating visitors. Today's parents are very aware of the huge influence that knowledge plays in their children's lives, with many parents having the need to explore new experiences with their children. A zoo has thus become a place where children extend their knowledge of animal species, but also where families can spend quality time together.

If the motives of visitors can be determined - whether it be recreational or educational, and whether it is for their own enjoyment or for that of their family - zoos can establish a better persuasive way to communicate educational and recreational satisfying offerings to prospective visitors. The purpose of this paper is therefore to determine people's recreational, educational, intrinsic and altruistic motives of visitation to a zoological park. First, the paper briefly addresses the problem and research objective followed by a theoretical overview of motivational factors for zoo visitation. Next, the research methodology is described after which the research results are reported. Finally, the managerial implications of the findings are presented.

## **PROBLEM IDENTIFICATION AND RESEARCH OBJECTIVES**

A zoological park is normally associated with 'learning about animals, which leads one to believe that the majority of people visit zoos because they care about conservation and wish to expand their knowledge. However, many people may frequent the zoo to escape from their daily routine and to relax in nature. Findings from studies conducted in other countries suggest that conservation and education may not be visitors' main motive. One study on the motivation and social orientation of visitors to a zoo, conducted in Kansas, Texas, USA, indicated that people visit the zoo because of both recreational and educational motives, and that people have altruistic as well as intrinsic social orientations (Morgan and Hodgkinson, 1999).

Very little research is available on the motivational factors of South African visitors to zoological parks. Therefore, this study aims to investigate people's recreational and educational motives together with their intrinsic and altruistic social orientation when visiting the National Zoological Gardens of South Africa. It is envisaged that by identifying what the main drivers are for people to visit zoos, such organisations may increase patronage and improve their chances of long-term success.

The objectives of this study are to determine:

- whether visitors view recreation or education as the most important motive;
- if visitors go to the zoo for recreational purposes, do they go for the benefit of others (altruistic motives) or for their own benefit (intrinsic motives); and
- if visitors go to the zoo for educational purposes, do they go for the benefit of others (altruistic motives) or for their own benefit (intrinsic motives).

## **LITERATURE REVIEW AND FORMULATING HYPOTHESES**

In the buying decision process a consumer goes through phases such as: problem recognition; information search; evaluation of alternatives; purchase; and post purchase evaluation (Pride and Ferrell, 2010:196). A possible psychological influence on the decision process is motives (Kotler and Armstrong, 2010:172). Within this context the needs and motivations of visitors to a zoo will be discussed.

Although most people associate the word „zoo“ with the concept of conservation, there are many other meanings attached to the word (Anderson, Kelling, Pressley-Keough, Bloomsmith and Maple; 2003:827). Findings from one study indicate that opportunities exist for learning about conservation, but when analysing a typical visitor, it was determined that visitors are generally not interested in acquiring detailed information about wildlife (Ryan and Seward, 2004:245).

A number of studies suggest three key motives of visitors to zoological parks: recreation, education and conservation (Fernandez, Tamborski, Pickens and Timberlake, 2009:1; Tomas, Crompton and Scott, 2003:122; Winter and Linke, 2008:101). It was also found that visitors to a zoo do it either for their own benefit, or for the benefit of others (Morgan and

Hodgkinson, 1999:228). Morgan and Hodgkinson (1999:229) classified visitors according to their primary motivation and social orientation. Using this approach, visitors are segmented into four quadrants as depicted in Figure 1.

**FIGURE 1**  
**CLASSIFICATION OF ZOO VISITS**

		PRIMARY MOTIVATION	
		Education	Recreation
SOCIAL ORIENTATION	Intrinsic		
	Altruistic		

**Primary motivation of zoo visitors**

Many believe that the focus of zoos, museums and aquariums has always been on educating visitors about animals, which in turn encourages positive conservation attitudes (Anderson *et al.*, 2003:839; Fernandez *et al.*, 2009:1; Hancocks, 2001:18). Today, in contrast, zoos face the challenge of providing activities that educate visitors in an entertaining manner, also offering the benefits of family togetherness as well as providing a „wildlife experience“ (Tomas *et al.*, 2003:121). Visitors“ primary motives in terms of recreation and/or education will be discussed below.

***Education as a motive for visiting the zoo***

Hornby (2009:467) defines education as “a process of learning, training and teaching to improve knowledge and skills”. One of the main purposes of zoological parks is to educate, more specifically to teach visitors about the facility and its animals“ behaviours and/or habitats (Morgan and Hodgkinson, 1999:228). Prior research indicates that traditional zoo

experiences focus on the sharing of knowledge and in many cases, it is viewed as more important than recreation (Smith, Broad and Weiler, 2008:545; Winter and Linke, 2008:103). One study conducted by Kellert (in Turley, 2001:5) reported that a larger percentage of people visited zoos to educate children, rather than for all purposes.

However, for many zoo visitors education may not be the primary motive for visitation. Their intellectual motives (education) of visiting the zoo may not always top of the list, because it is argued that with repeated visits to the zoo, the need for information reduces. Once the information is obtained, repeat visitors will return, either to relax, to take photos or to enjoy time with their friends and family (Anderson *et al.* 2003:827; Ryan and Seward, 2004:249; Tomas *et al.*, 2003:112). Some people prefer to learn informally by reviewing exhibit content, noticing detail, making comparisons, following instructions and reading explanatory text. More specifically, people may visit the zoo to see the animals, but they do not necessarily view the experience as educational (Andereck and Caldwell, 1994:25).

Many zoo visitors may thus experience education within the context of recreation, but may not consider the educational aspect as the primary catalyst for their visitation (Ryan and Seward, 2004:254).

### ***Recreation as a motive for visiting the zoo***

Recreation is defined as “the activities people partake in for enjoyment when they are not working” (Hornby, 2009:1218). Zoological parks are considered ideal locations for recreational enjoyment. Visitors enjoy the zoo because of the opportunity to escape daily routines and spend time with their families (Turley, 2001:2). Most people work extremely hard and have to make the most of every opportunity to relax and spend quality time on their own or with their families. This could be a reason why some people visit the zoo, namely to relax and experience the tranquillity of the surrounds. Various studies support the statement that people primarily visit a zoo for enjoyment (Sickler and Fraser, 2009:314; Turley, 2001:8). In fact, many researchers report that relaxation is important to most zoo visitors (Hunter-Jones and Hayward, 1998:97; Ryan and Seward, 2004:246; Sickler and Fraser, 2009:314; Smith *et al.*, 2008:550; Turley, 2001:13).

Some research indicates that people have a more pleasant experience at zoos that incorporate the characteristics of a restorative environment (Pals, Steg, Siero and van der Zee, 2009:442). This is an environment where people feel relaxed and where they can recharge, free from the stress of outside influences (Hartig, Evans, Jamner, Davis and Garling, 2003:109). It may thus be more beneficial for zoos to provide visitors with recreational activities where they can learn something while having a good time, rather than providing purely educational activities (Tomas *et al.*, 2003:121).

Even though education is deemed to be an important motivational factor for zoo visitation, previous research shows more support for recreation as a motivational factor when visiting a zoo. It is therefore hypothesised that:

H<sub>1</sub>: Zoo visitors regard recreational motives as more important than educational motives.

### **Social orientation of zoo visitors**

Visitors to the zoo are often more concerned about the opportunity for social interaction and therefore consider zoos as places to meet as a group. Of note, is that the type of visitor will probably influence the social orientation motive; for example in the case of families, having children might motivate parents to visit the zoo as a group, while other visitors are frequenting the zoo alone to relax or to learn. According to Morgan and Hodgkinson (1999:236), the social behaviour of visitors to the zoo can be divided into intrinsic social orientation (for oneself) or altruistic social orientation (for others) and are discussed below.

#### ***Intrinsic social orientation***

Intrinsic orientation is a form of social behaviour that refers to people behaving in a certain way for their own benefit and fulfilment as opposed to that of others. In most cases it is self-applied and there is a “direct relationship between the individual and the situation” (Hornby, 2009:784).

According to Saayman and Slabbert (2004:94), one of the main reasons for visiting a zoo is to relax. Various other studies also classified the zoo mainly as a place of relaxation where one

can break free from everyday life and spend time in a calm environment (Andereck and Caldwell, 1994: 23; Tomas *et al.*, 2003:121). Some people use this opportunity to get away and find peace in a nature-filled environment (Pals *et al.*, 2009:441) where they can connect and identify with animals (Sickler and Fraser, 2009:314). They behave as such because they have intrinsic motives wanting to satisfy their own needs for recreation and relaxation (Sickler and Fraser, 2009:324).

A zoo environment can also stimulate feelings of travel since visitors get the opportunity to encounter various species in their own authentic environment (Benbow, 1995:32). This can be an opportunity (and intrinsic motivation) to educate oneself and learn more about animals and nature. Some research findings indicate that visitors' attitudes and behaviours are not clearly correlated (Winter and Linke, 2008:102). For example, certain visitors claim that they visit the zoo for recreational purposes, but their main role is conservation and the support thereof. This implies that zoo visits provide them with moral justification and make them feel less guilty about their way of living. This is also considered intrinsic social behaviour, as it satisfies one's own needs and not those of others. Visitors thus experience fulfilment by supporting the zoo and thereby indirectly supporting conservation of rare and endangered animals (Smith *et al.*, 2008:544).

### ***Altruistic social orientation***

Hornby (2009:42) describes altruistic social orientation as caring more about the needs and happiness of other people than one's own. Research by Holzer, Scott and Bixler (1998:43) indicate that visitors' motivations for being at the zoo were, in order of importance, family togetherness, enjoyment, novelty seeking, education and relaxation. One study on visitors' attitudes and beliefs towards animals indicated that more than a third of zoo visitors questioned, were motivated to go to the zoo because of the opportunity to educate their children. More than a quarter of the respondents were there to spend recreational time with their families and friends (Kellert in Morgan and Hodgkinson, 1999:236). Parents thus see the zoo as an ideal environment to broaden their children's knowledge of wildlife, while sharing exciting experiences with them (Milan and Wourms in Tomas *et al.*, 2003:111). The social experience is thus important, whether it is the family as a group, or others in the group.



Research by Morgan and Hodgkinson (1999:236) also indicated that even though parents may personally enjoy visiting a zoo, their primary motive for visitation, from which they benefit indirectly, is to allow their children to have fun and to experience or interact with the animals. They take pleasure in seeing their children enjoy themselves (recreation) and observe how they increase their knowledge (education) first-hand (Sickler and Fraser, 2009:325).

Various research studies support the findings that altruistic recreation, for example giving the family an opportunity to spend quality time together, is viewed as an important motive for visiting a zoo (Andereck and Caldwell, 1994:24; Turley, 2001:9). In addition, education is just as important, because parents also visit the zoo for the educational advantages that their children might gain (Morgan and Hodgkinson, 1999:236).

From the discussion it is clear many people (especially parents as the target market) tend to consider the happiness of others (such as children) before considering their own needs. It is therefore posited that:

H<sub>2</sub>: Zoo visitors attach more importance to altruistic recreation as a motive than to intrinsic recreation as a motive.

H<sub>3</sub>: Zoo visitors attach more importance to altruistic education as a motive than to intrinsic education as a motive.

## **RESEARCH METHODOLOGY**

The study was conducted at the National Zoological Gardens of South Africa situated in Pretoria. It is the largest zoo in South Africa and the only one with national status and it also accommodates an aquarium and reptile park. The aquarium is the largest inland marine aquarium in the country and more than 600 000 people visit the zoo annually (National Zoological Gardens of South Africa, 2011).

### **Sampling**

The population for the proposed study included all adult visitors (18 years and older) to the zoo in September 2010. Only one member in every visiting group was selected to answer the

questions. Quota sampling was used to select participants based on the visitor's life stage and race. An equal number of participants (twenty five) were included in the different life stages (people with no children, couples with children, single parents with children, and grandparents with their grandchildren) as well as race groups (white and non-white). The characteristics for the quota sample were based on the visitor profile compiled by Saayman and Slabbert (2004:92). The quota was adapted according to observations made during the pre-test phase. Visitors were intercepted at the zoo entrance by the researchers and asked to participate in the study by answering a 10-minute questionnaire. A sample of 200 completed questionnaires was obtained.

### **Data collection**

Pre-testing was conducted among 10 respondents at the zoo to evaluate the questionnaire. The pre-test did not indicate any problems with the questions in the questionnaire and no changes were made to the measurement instrument.

Data were collected through a quantitative survey during September 2010 on seven different occasions between 9:00-12:00 and 12:00-17:00 in order to fill the quotas. The researchers observed that during weekdays most visitors included school groups or individual visitors, with weekends mostly family groups. No incentives were offered to encourage respondents to participate.

### **Measurement**

To measure the main constructs, a 5-point Likert scale with 26 scale items was replicated from a study by Morgan and Hodgkinson (1999:233). The scale consisted of four sub-dimensions measuring the following constructs: intrinsic education, altruistic education, intrinsic recreation and altruistic recreation. All the items are measured on a scale ranging from 1 (strongly disagree) to 5 (strongly agree). No scale items were reverse scored.

Composite scale scores were used to calculate the average of the four sub-dimensions. The higher a respondent's composite score on a sub-dimension, the more (s)he identifies with a certain motive (a high composite score is 3 and above and a low composite score is below 3).

The reliability of the sub-scales was tested using Cronbach's alpha. A lower limit of 0.70 was set for the Cronbach's alpha as suggested by Nunnally (1978).

## RESULTS

### Descriptive statistics

The respondent profile included visitors in the following lifestyle categories: couples with children (42%), visitors with no children (32.5%), single parents with children (15.5%) and grandparents with children (10%). Most groups included five or more people (40%) and the majority of respondents were female (64.5%).

The objectives of the study related to respondents' motives for visiting the National Zoological Gardens of South Africa. The mean (M) scores of the 26 scale items (and four sub-scales) are presented in Table 1. Higher mean scores indicate a higher importance that visitors attach to the specific motive. The respective Cronbach's alphas are also presented in Table 1.

**TABLE 1**  
**SCALE ITEMS AND SUMMARY STATISTICS AT THE PRETORIA ZOO (N = 200)**

<b>SCALE ITEMS AND SUB-DIMENSIONS</b>	<b>M</b>
<b>Composite Education Score</b>	<b>3.00</b>
<b>Intrinsic Education</b> (Cronbach's alpha: 0.88)	<b>2.52</b>
To benefit myself, educationally speaking.	2.70
To learn about animals in general by myself.	2.64
To learn about endangered species.	2.49
To learn about a specific animal(s).	2.25
<b>Altruistic Education</b> (Cronbach's alpha: 0.91)	<b>3.47</b>
To allow others to learn about animals in general.	3.73
To benefit others, educationally speaking.	3.64
To allow others to learn about endangered species.	3.28
To allow others to learn about a specific animal(s).	3.24
<b>Composite Recreation Score</b>	<b>3.76</b>
<b>Intrinsic Recreation</b> (Cronbach's alpha: 0.71)	<b>3.51</b>
To have fun.	4.35
To relax and unwind.	4.35
To be outdoors in nature.	4.15
To do something different in my free time.	4.05
To get away from my regular routine.	3.49
To walk around because it would be good for me.	3.32
To photograph nature.	3.28

To get out and explore a new area by myself.	2.71
To spend some quality time by myself.	1.85
<b>Altruistic Recreation</b> (Cronbach's alpha: 0.84)	<b>4.01</b>
To spend some quality time with others in my group.	4.57
To allow others in my group to have fun.	4.49
To allow others in my group to relax and unwind.	4.48
To allow others in my group to be outdoors in nature.	4.28
To help others break away from their regular routine.	4.10
To show others something different to do in their free time.	4.03
To get others out and help them explore a new area.	3.94
To show others that walking around would be good for them.	3.31
To allow others in my group to photograph nature.	2.89

From Table 1 it can be observed that the sub-scales can be regarded as reliable because all had a Cronbach's alpha values of more than 0.7. These values are also in line with those reported by Morgan and Hodgkinson (1999:233).

Of all the motivational items, the most important motivational item (highest mean score) was "to spend some quality time with others in my group" ( $M = 4.57$ ). The least important motivation was "to spend some quality time by myself" ( $M = 1.85$ ). On average, altruistic recreation (Overall  $M = 4.01$ ) was regarded as the most important overall motivational factor, followed by intrinsic recreation (Overall  $M = 3.51$ ). The least important overall motivational factor was intrinsic education (Overall  $M = 2.52$ ). The descriptive statistics of this study is in line with other similar studies conducted in different contexts and countries.

### **Hypothesis testing**

The hypotheses are one-tailed (directional) hypotheses and were tested at a 5 per cent level of significance (i.e.,  $\alpha = 0.05$ ). The appropriate parametric significance test for both hypotheses is the paired-sample t-test. This test assumes that the difference scores are normally distributed in the population (Pallant, 2005:210).

The assumption of normality was assessed through the Kolmogorov-Smirnov test for normality, as well as through a visual inspection of histograms and normal probability plots. These tests indicate slight departures from normality and since the paired-sample t-test is robust for mild departures from normality with large samples ( $n = 200$ ), a decision was made

to use the paired sample t-test, instead of the non-parametric Wilcoxon test (Pallant, 2005:209).

As mentioned in the literature review, the following hypotheses were formulated:

H<sub>1</sub>: Zoo visitors regard recreational motives as more important than educational motives.

H<sub>2</sub>: Zoo visitors attach more importance to altruistic recreation as a motive than to intrinsic recreation as a motive.

H<sub>3</sub>: Zoo visitors attach more importance to altruistic education as a motive than to intrinsic education as a motive.

The result of the paired sample t-test for Hypothesis 1 shows a significant difference ( $p$ -value=0.000) and thus support for Hypothesis 1. This means that respondents consider recreational motives to be more important than educational motives. This highlights the fact that visitors to the zoo are there mainly to relax, unwind and have fun, and not necessarily to get educated on the life, habitat and history of the animals. This finding supports various other studies who also reported that recreation seem to be a stronger motivator than education (Ryan and Saward, 2004; Sickler and Fraser, 2009; Tomas *et al.*, 2003). Serrel, Kruse and Card (in Ballantyne *et al.*, 2007:378) suggest that although most modern zoos and aquariums highlight their commitment to conservation and education, public perceptions are still focussed on their entertainment or fun aspects. Andereck and Caldwell (1994:24), as well as Morgan and Hodgkinson (1999:237) explored the categories of motives that represent varying concepts of recreation in contrast to education as motive and found education less important as a motive than recreation.

The result for Hypothesis 2 shows significance at  $p=0.000$  which indicates that respondents attach more importance to altruistic recreation than to intrinsic recreation, thus support for Hypothesis 2. Altruistic recreation measured the highest of the four main motivational factors (in terms of the mean value) with the item “to spend quality time with others in my group” scoring the highest of all motivational items in the study ( $M = 4.01$ ). The second highest scoring item was “to allow others in my group to have fun”. It is interesting to note that hardly any respondent thought it was important to spend quality time on their own, therefore the stronger association with altruistic recreation. This is supported Reade and Warren (in Ballantyne *et al.*, 2007:378) who reported that the three most commonly cited reasons for

visiting the Edinburgh Zoo (a place to visit with friends and relatives; for the fun of it; and entertainment), could be classified as entertainment. Only 4 per cent of the sample stated that they visited the zoo to learn about animals. Shackley (in Ballantyne *et al.*, 2007:378) revealed in her 1992 study that 48 per cent of visitors to UK zoos went for an outing. A further 40 per cent indicated that their motive was to entertain their children. Morgan and Hodgkinson (in Sickler and Fraser, 2009:314) found that the highest overall motivator was in the social-recreational area.

The result of the third paired sample t-test show support for Hypothesis 3 with a significant difference (p-value=0.000). Zoo visitors thus attach more importance to altruistic education as a motive than to intrinsic education. The most important altruistic educational item was “to allow others to learn about animals in general” followed by “to benefit others, educationally speaking”. The hypothesis test suggests that respondents do not visit a zoo for their own benefit, but rather because they want others to learn something, have fun, or simply spend quality time together. It is common for parents, for example, to educate their children while they are present to join in the fun. Morgan and Hodgkinson (in Sickler and Fraser, 2009:314) support this in their finding in that the lowest motivator was in the individual-educational area.

Worth noting is that the type of visitor to the zoo may affect the social orientation (altruistic and intrinsic). Nearly 68% of the respondents in this study visited the zoo with children. This may explain the stronger preference for an altruistic orientation because these adults care more about the needs and happiness of the children than their own, irrespective of whether they are there for the education of the children, the recreational outing, or both.

## **MANAGERIAL IMPLICATIONS**

Zoological parks cannot survive over the long-term if they do not satisfy the needs of its visitors. When developing marketing strategies (specifically positioning and target market selection) for zoological parks, management should take cognisance of the results of the study. When marketing the National Zoological Gardens of South Africa, it could, for example, be more effective to focus communication on the recreational value of the zoo visit, rather than the educational aspects. It is normal for a zoo to want visitors to learn about the

zoo and its animals but care should be taken not to make assumptions that visitors necessarily want to be educated. The findings do not suggest that learning about animals in general is unimportant, but it is clear that visitors would prefer to learn in a recreational way and that educational facts should be communicated in such a way that it adds to an enjoyable day in the zoo.

The message from this study's findings is that, with or without education, the recreational aspect of the visit is more important. If the aim is to educate the public, the zoo should use educational methods that are presented in an entertaining way. Examples combining recreation with education can include exhibits where people can touch objects, artefacts or animals (the latter often referred to as 'petting zoos'), interactive guided tours or demonstrations with live-animals and feeding programmes. Behind the scenes tours, camping overnight and feeding animals are also examples of educating visitors in a recreational way. The zoo should thus aim to make learning as interesting and entertaining as possible, for children and adults alike.

The findings also indicate that the main social orientation for a zoo visit is altruistic, namely to visit because it will serve the needs and happiness of other people. Whether this is to allow others to have fun (recreational) or learn more (educational), the social orientation is to ensure that others benefit from the visit to the zoo. Management should thus focus their marketing communication messages by highlighting the opportunity the zoo offers to have fun, relax, unwind and spend quality time with each other. The focus should be placed on family or group activities that can be organised in the zoo. The National Zoological Gardens of South Africa has, for example, a zoo choo-choo tractor train that can take family members with smaller children on a ride through parts of the zoo, or members with teenagers on the cable-car ride that provides a panoramic view of the zoo and surrounding city. These activities will result in learning more about the animals and conservation, but having fun while doing so, thus addressing the altruistic social orientation of ensuring the happiness of the group. More importantly, these activities should be marketed in the National Zoological Gardens of South Africa's communication to the public.

An understanding of the reasons people visit zoological parks will improve marketing activities, but more importantly, recreational and educational park activities. Such an

understanding can, perhaps, provide the silver lining for such parks in the global economic and political dark clouds. The challenge remains to address the needs of both people and animals in the management of a zoological park.

## CONCLUSIONS

The main motivator to visit the zoo was identified as altruistic recreation. This indicates that most visitors wanted to relax and have fun with other people. Addressing this need should become part of the zoo's marketing strategy. The findings cannot necessarily be applied universally, even though the results were very similar to that of other studies in a similar environment. Further research is suggested to determine the zoo visitor profiles and individuals' identity-related motivation for visitation. Conservation and its role as a motivator could also be investigated in future research.

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**WHY THREE ADVERTISING EXPOSURES MAY BE ENOUGH:  
EMPIRICAL EVIDENCE FROM PAKISTAN**

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# **WHY THREE ADVERTISING EXPOSURES MAY BE ENOUGH: EMPIRICAL EVIDENCE FROM PAKISTAN**

## **Abstract**

This study reviews the available literature on advertising exposure and empirically investigates the relative effects of single and three advertising exposures on the effectiveness of advertisements in terms of recall, attitude of advertising viewers towards the advertisement, brands and their purchase intent for the advertised brands respectively. The advertisements, embedded in a television program, were shown to two separate groups of research participants in single and three advertising exposures such that subjects in three exposures group watched the advertisements three times as compared to only one exposure in single exposure. Based on the obtained responses from research participants in single and three exposures, the data was analyzed for Mean significant difference in unaided brand and advertisement recall, advertisement and brand attitude and lastly purchase intent for the advertised brands. The findings of this study reveal that as advocated by previous researchers, advertisements in three exposures elicited significantly greater brand and advertisement recall than advertisements watched in single exposure. Similarly, the advertisement and brand attitude as well as purchase intent were found significantly more favourable in three exposure group as compared to these measures in single exposure. Collectively, the results of this study provide strong evidence about the superior performance of three advertising exposures compared to single exposure. In the light of the findings of this study, three advertising exposures have been suggested as more effective for testing an advertising phenomenon in experimental study setting.

**Keywords:** Single Exposure, Three Exposures, Recall, Attitude, Purchase Intent

## 1. Introduction

There is no doubt that advertising plays a vital role in the overall operation of an organization. As compared to other promotional tools, advertising captures greater chunk of total promotion budget. Each year companies spend a substantial amount of its income on advertising to promote their products and services (Higie and Sewall, 1991). Only in United States, during 1988 and 1998, \$ 70.8 billion and \$ 200 billion were spent respectively. Due to such a big spending, company's concern about the effectiveness of their advertising campaigns has much increased today than ever. However, despite this, the effectiveness of advertisements has always remained an important and debatable issue in the advertising world (Jeong, 2004). Review about this debatable issue (the assessment of advertising effectiveness) indicates that different research studies on advertising effectiveness have used different methodologies. Some of the studies, while considering one or two factors necessary for the valid assessment of the advertisements, ignore the other important factors. For instance, some of the previous advertising studies have controlled the effects of television program in which the experimental advertisements were embedded as well as the effects of brand familiarity on participants' assessment of the respective advertisements (e.g., Campbell and Keller, 2003). However, many other studies have considered some other factors important for valid experimentation (e.g., Kover, Goldberg, and James, 1995; Ang and Low, 2000). In line with the same debate, the use of single advertising exposure in previous advertising studies has always been a major limitation for valid results of the concerned study (Till and Baack, 2005). There is sufficient amount of literature that emphasizes on the optimum number of advertising exposures at which cognition and attitude of advertising viewers reach to peak (Belch, 1982; Sawyer, 1981; Tellis, 1997; Pechman and Stewart, 1992; Campbell and Keller, 2003). Based on this available literature, this study argues that unlike previous advertising studies, advertising phenomenon should be studied in more than single advertising exposure as more than one advertising exposure provides a more sound and valid base for understanding the nature of a particular advertising phenomenon. However, previous studies concerning the effects of various advertising exposures on the assessment of advertisements lack consensus about an optimum number of advertising exposure at which both recall and persuasion increase simultaneously. This study attempts to explore the relevant literature on advertising exposure, suggest an appropriate

number of advertising exposure at which the understanding of advertising reach to peak and provide empirical evidence in the context of Pakistan.

## **2. Literature Review**

Review of literature provides evidence that advertising researchers have used various measures of advertising effectiveness. However, in general, the behavioral perspective of „advertising effectiveness research“ focuses on recall or and persuasion as the important measures of advertising effectiveness (Ang and Low, 2000; Till and Baack, 2005). In addition, advertising studies which investigate the causal effects of a stimulus (e.g., effects of music on consumers purchase intention, effects of cause related marketing on advertising effectiveness) have mostly used lab-experimental setting as the appropriate study setting. Therefore, to investigate the causal effects of advertising exposures on the assessment of advertisements (effective / ineffective) and review the relevant literature, this study considers those advertising studies which examine the effects of advertising exposure levels in a laboratory setting. More precisely, this study explores the advertising literature related to the effects of different exposure levels on recall, attitude and purchase intent in a contrived lab-experiment setting.

### **2.1. Advertising Exposures and Recall**

Recall is frequently used in advertising literature as a measure of memory (e.g., Till and Baack, 2005; Stone, Besser and Lewis, 2000) and is linked to putting the brand in consumers“evoked set (Loudon and Della Bitta, 2002). Concerning the effects of advertising exposures on consumers“ memory, numerous studies have shown that exposure levels have a close link with attention which leads to greater recall. Review of literature states that increased level of advertising exposures provides greater opportunity to advertising viewers to sense and process the advertising information at a deeper level in their minds. Cacioppo and Petty (1979) in a lab study found that respondents“ recall was significantly higher in three exposures than in first and second exposure. Moreover, those respondents who were exposed to the advertisements more than four times significantly better recalled the advertisements than those who were exposed to same

advertisements three times. Their study concludes that recall is the function of advertising exposure levels. The same findings were replicated by Belch (1982) who found that as the number of advertising exposures increases, so as the respondents' recall. Similar to these results, Sawyer (1981) found that subjects recall in three exposures was significantly higher than in single and two exposures of the experimental advertisements. Overall, early laboratory studies have found that recall increases linearly as the number of exposures to the advertising message increases from first to approximately six (Pechmann and Stewart, 1992). In line with these arguments, the recall level of advertising viewers is supposed to be significantly higher if they are exposed six times to the experimental advertisements than those who are exposed to the same advertisements only once.

## **2.2. Advertising Exposures and Persuasion**

In addition to the above discussion on the linearly increasing effects of advertising exposures on recall of advertising viewers, review of literature also states that consumers' cognitive and hence their attitudinal response to advertisements is also moderated by advertising exposure level. Studies have found that consumers' understandability of the experimental advertisements steadily increases until it reaches to a certain exposure level. Beyond that exposure level, favorability of thoughts in viewers' minds and hence its subsequent effects on their advertisement and brand attitude starts to decline. Krugman (1972) presented his well recognized theory of exposure effects. Krugman (1972) considers that three advertising exposures are enough for obtaining peak attitudinal and memory response from advertisement viewers. He argues that first exposure produces curiosity, uncertainty and lack of identification about the advertisement, which he terms as "what is it" stage. This serves as a motivation for viewers and they try to understand the message and reduce their uncertainty in the second exposure which he terms as "what of it" stage. The third and the last exposure of an advertisement to viewers represent their overall evaluation and perception about the advertisement. Cacioppo and Petty (1979) found that viewers' attitude towards the brand become more favorable on the third exposure which become less favorable on subsequent advertising exposures. Similarly, Sawyer (1981) also found that first two advertising exposures result in a low recall and less favorable attitudinal response among viewers. However, both attitude and advertising recall reach to peak positive response on third advertising exposure. Calder and Sternthal (1980) in an experimental study found that it takes three exposures to elicit

positive thoughts in consumers' minds about the advertisement and the respective brand which ultimately lead to favorable attitude towards the advertisement and the respective brand. After three advertising exposures, negative thoughts start in viewers' minds which make their attitude unfavorable. Belch (1982) also found similar results with three exposures leading to optimum positive thoughts, brand and advertisement attitude.

Pechman and Stewart (1992) suggest that in the case of experimental research studies, even a single advertising exposure produces positive effect. However, to get the maximum understanding about viewers' judgment of the advertisement and hence obtain their valid and more reliable response towards the advertisement, Pechman and Stewart (1992) suggest that researchers, particularly in a lab-experimental study should stop on third exposure as fourth exposure actually start producing negative effects on favorable thoughts and viewers' attitude. While providing a comprehensive review, Naples (1997) also states that at maximum, optimal advertising exposures in previous studies on the effects of advertising repetition appear to be three and beyond third exposure, advertising effectiveness increases at a diminishing return. This supports the findings of Sawyer (1981) who states that in an experimental setting, responses of advertising viewers form the shape of Inverted-U. By inverted-U, Sawyer (1981) means that initial advertising exposure produce favorable effects on viewers' response which reaches to peak at third exposure and then addition exposures produce negative response which follows a diminishing return curve. In line with these arguments, it can be implied that respondents who obtain three exposures of the experimental advertisements are supposed to have more positive advertisement and brand related attitude than those who are exposed to the same advertisements only once.

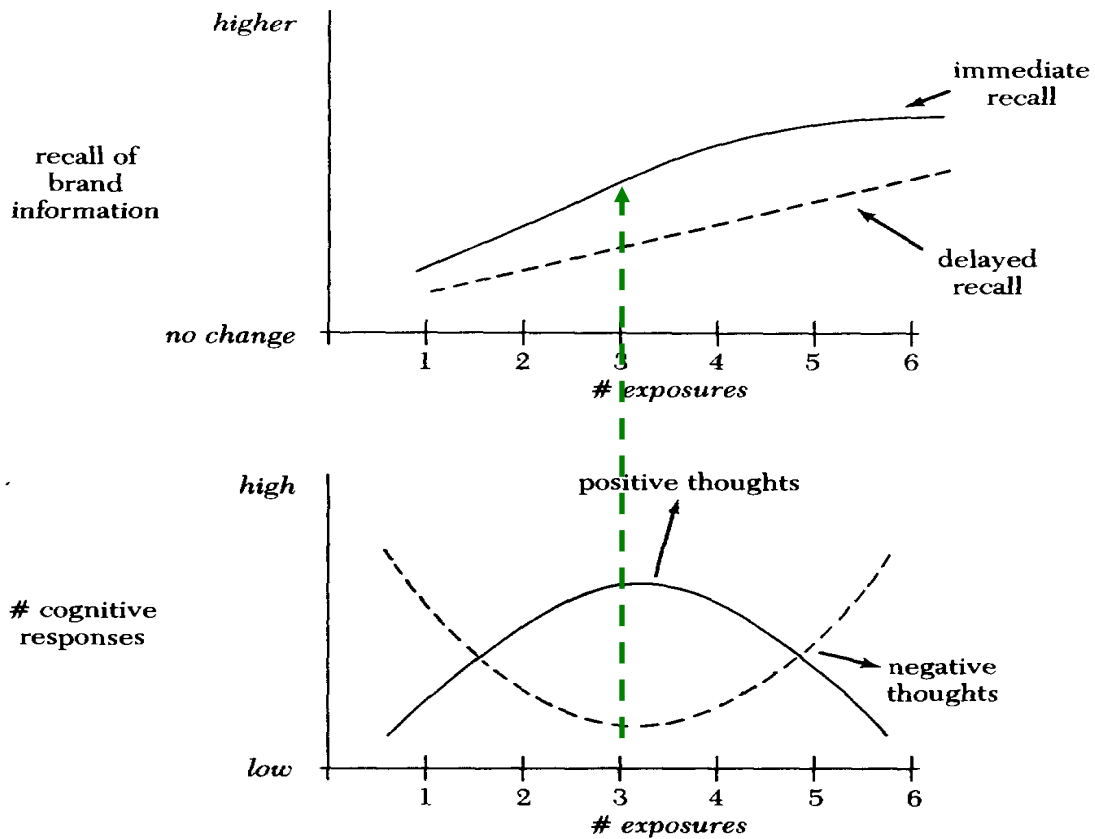
### **2.3. The Intersection of Advertising Exposure Level, Recall and Persuasion**

The above sections discussed the influence of advertising exposure levels on viewers' recall and attitudinal responses towards the respective advertisements. Majority of studies conclude that viewers' recall linearly increases from low on first two advertising exposures, high on third exposure and very high on sixth exposure after which recall steadily decreases. However, early laboratory studies found that it takes three exposures to elicit peak cognitive response and hence positive attitudinal response from advertising viewers. In the first two exposures, the



advertisements produce negative cognitions and less favorable attitude, however, third exposure produces positive effects on cognitions and hence leads to more favorable attitude (Cacioppo and Petty, 1979; Sawyer, 1981). Beyond three exposures, the negative thoughts in viewers' minds outnumber the positive thoughts which exert negative effects on their attitude.

In line with the above argumentation, it may be possible that with more than three exposures, the attitude of advertising viewers may become negative; however, recall will steadily increase till the sixth advertising exposure. Therefore, the right number of advertising exposure should be one which exerts the maximum positive effects on viewers' attitude as well as produce sufficient amount of recall. In other words, the right number of advertising exposure should be the point where recall while linearly increasing with the number of exposures, intersects the positive cognition and attitudinal response. This has been depicted in figure 1 below.



Source: Pechmann and Stewart, 1992

As shown in figure 1, the cognitive response of advertising viewers and hence their attitudinal response towards the respective advertisements touches the linearly increasing curve of recall on the third exposure. Beyond third exposure, cognitive response becomes negative which further affects the attitude of advertising viewers negatively. In line with this argumentation, this study argues that three exposures, being a more stable and valid ground for obtaining peak response of research participants, should be used for investigation of an advertising phenomenon as compared to single advertising exposure where the viewers' response still remains in the process of maturation.

### **3. Hypotheses**

Given the foregoing review about the superior effects of multiple advertising exposures, three advertising exposures are supposed to be an optimum exposure level at which both recall and persuasion increase simultaneously (See Figure 1). Based on this, the following hypotheses are drawn respectively.

- H1: The experimental advertisements will lead to significantly higher unaided brand recall in three ad-exposures than single exposure.
- H2: The experimental advertisements will lead to significantly higher unaided advertisement recall in three ad-exposures than single exposure.
- H3: The experimental advertisements will lead to significantly more favorable advertisement attitude in three ad-exposures than single exposure.
- H4: The experimental advertisements will lead to significantly more favorable brand attitude in three ad-exposures than single exposure.
- H5: The experimental advertisements will lead to significantly greater purchase intent in three ad-exposures than single exposure.

## **4. Research Method**

The detail of each element of the research design adopted in this research is discussed below.

### **4.1. Subjects**

A total of 172 students enrolled in business and computer studies participated in the experiment. Among the total respondents, 124 were males (72%) and 48 females (28%). Forty two students were from computer science and one hundred thirty students were from management science department. The students were free to participate or not to participate in the experiment. The subjects were randomly allocated to two groups, single and three advertising exposures, and were shown the experimental advertisements.

### **4.2. Instrumentation and Variables**

Besides the demographic profile, the measuring instrument was consisting items about brand and advertisement recall, brand and advertisement attitude and purchase intent. Brand and advertisement recall was measured through open ended questions. Advertisement attitude was measured through 6-items 7-point Likert scale (Baker and Kennedy, 1994; Burke and Edell, 1986). The items were: I liked the Ad, enjoyed the Ad, the Ad was believable, the Ad was convincing, the Ad was informative and the ad was believable. Similarly, the brand attitude was measured through 6-items 7-point Likert scale (Pelsmacker, 1998; Lee and Mason, 1999). The items were: I liked the brand, the brand is a good brand, I feel positive towards the brand, the brand is of good quality, the brand possesses the claimed benefits and the brand is quite useful. Purchase intent of the subjects was measured through 3-items Likert scale (Pelsmacker, 1998). The items were: I would like to buy the brand, If I ran across the shop, I will buy the brand and I will prefer to choose this brand. The reliability coefficients for attitude towards advertisement, attitude towards brand and purchase intents were 0.85, 0.77 and 0.82 in single exposure and 0.87, 0.80 and 0.86 in three exposures respectively.

### **4.3. Procedure**

Data was collected from 177 students enrolled in Business and Computer studies. Subjects were randomly assigned to each of the two experimental groups: single and three advertising exposures. Before starting the experiment, respondents were told that they are participating in a research project, but they were not aware that the research study is about the assessment of advertising effectiveness. After watching the television program and the embedded advertisements, subjects were handed over the questionnaire measuring unaided brand and advertisement recall which was then followed by measuring the subjects' advertisement and brand attitude, and purchase intent for the recalled brands.

## **5. Results of Hypotheses**

This study examined the effects of single and three advertising exposures on different measures of advertising effectiveness which included brand and advertisement recall, brand and advertisement attitude and purchase intent for the advertised brands. Multivariate Analysis of Variance (MANOVA) was used as the most appropriate analysis tool to analyze the responses of advertising viewers in single as well as three exposures.

### **5.1. Recall of Advertising: Potential of Three versus Single Ad-Exposure**

The results of hypotheses pertaining to subjects brand and advertisement recall in both single as well as three advertising exposures, are reported in table 1.

**Table 1: MANOVA Result: Unaided Brand and Adv-Recall by Adv-Exposure Level**

Measure	Mean 1-Exposure	Mean 3-Exposures	F	Sig
Unaided Brand Recall	0.32	0.44	69.47	0.000
Unaided Adv-Recall	0.24	0.37	73.39	0.000

### **Hypothesis One (H1)**

Hypothesis one stated that advertisements will lead to significantly greater unaided brand recall in three exposures than single exposure. To investigate the interactive effects of exposure level (single Vs three exposures) on the number of brands recalled on unaided basis, descriptive statistic revealed that research subjects having watched the advertisements in three exposures recalled greater number of brand names (Mean: 0.44) as compared to those who watched advertisements only once (Mean: 0.32). The results of MANOVA revealed that mean unaided brand recall is also significantly different across the two exposure levels and hence, H (1), predicting the superior role of three advertising exposures with regard to the recall of brand names as compared to single ad-exposure was therefore supported ( $F = 69.47, p < 0.05$ ).

### **Hypothesis Two (H2)**

Hypothesis two stated that subjects in three advertising exposures will describe the features of greater number of advertisements as compared to those who are exposed to these advertisements only once. Based on the obtained responses from research participants in single and three exposures respectively, the descriptive statistics revealed that subjects recalled greater number of advertisements in three exposures as compared to single exposure. The MANOVA results also found that mean advertisement recall significantly differ across single and three exposures (Mean 3-Exposures: 0.37, Mean 1-Expsoure: 0.24;  $F = 73.39, p < 0.05$ ). Based on this statistical evidence, hypothesis two, advocating the superior performance of three advertising exposures as compared to single exposure, was substantiated.

## 5.2. Advertising and Persuasion: Potential of Three versus Single Ad-Exposure

Table 2 shows the MANOVA results for the effects of advertising exposure levels on subjects' brand and advertisement attitude in both single and three advertising exposures.

**Table 2: MANOVA Result: Viewers' Attitude (Brand and Advertisement) and Purchase Intent by Adv-Exposure Level**

Measure	Mean 1-Exposure	Mean 3-Exposures	F	Sig
Advertisement Attitude	4.79	5.49	81.19	0.000
Brand Attitude	4.74	5.28	70.87	0.000
Purchase Intent	4.39	4.99	31.68	0.000

### Hypothesis Three (H3)

Hypothesis three argued that advertisements having obtained three exposures would have greater positive impact on consumers' attitude towards the respective advertisements than advertisements with a single ad-exposure. The research subjects' attitude towards the advertisements, both in single and three ad-exposures were analysed for significant mean difference. Parallel with the significant recall result, it was found that three ad-exposures led to significantly greater favorable advertisement attitude than single exposure (Mean 1-Exposure: 4.79, Mean 3-Exposure: 5.49;  $F = 81.19, p < 0.05$ ). Hypothesis 3 was therefore supported.

### Hypothesis Four (H4)

Hypothesis four was based on the proposition that since favorable advertisement attitude lead to positive brand attitude; as well as the superior role of three ad-exposures than single exposure in forming more favorable advertisement or brand attitude, it was hypothesized that subjects' positive advertisement attitude in three ad-exposures will also lead to significantly more positive brand attitude in three exposures than single advertising exposure. Parallel with the result of hypothesis three, subjects' brand attitude was found significantly more favorable in three advertising

exposures than subjects brand attitude in single exposure (Mean 1-Exposure: 4.74, Mean 3-Exposure: 5.28;  $F = 70.87, p < 0.05$ ). Hence, hypothesis four was also substantiated.

### **Hypothesis Five (H5)**

Hypotheses five predicted that since advertisements having led to more favorable brand attitude also produce greater purchase intent for the advertised brands respectively, therefore, advertisements developing greater positive brand attitude in three exposures will also produce greater purchase intent than advertisements in single exposure. The obtained responses of research participants in single and three exposures were analyzed for purchase intent respectively. The MANOVA result confirmed for a significant means" difference in purchase intent in single versus three exposures respectively. (Mean 1-Exposure: 4.39, Mean 3-Exposures: 4.99;  $F = 31.68, p < 0.05$ ). Hypothesis five was also validated.

## **6. Discussion**

This study investigated the comparative effects of single and three advertising exposures in the assessment of advertising effectiveness. In three advertising exposures as compared to single ad-exposure, significant means" difference was found in viewers" advertising and brand recall, their attitude towards the respective advertisements and brands; and their purchase intent for the advertised brands respectively.

The results of this study in three exposures as compared to single exposure support the well established and recognized theory of advertising exposures which states that consumer"s attention to the advertisements and its comprehension starts increasing from first exposure and reaches to peak at third exposure (e.g., Naples, 1997; Pechman and Stewart, 1992; Belch, 1982; Sawyer 1981; Calder and Sternthal, 1980). That is, three advertising exposures exert more positive influence on participants" evaluation of advertisements as compared to advertisements" evaluation in single exposure. This study found that consumers" brand and advertisement recall, attitude and purchase intent significantly increased in three advertising exposures as compared to single advertising exposure. As much argued in the literature part of this study, the comprehension of an advertising

message is much higher in three exposures as compared to single exposure (e.g., Naples, 1997; Pechman and Stewart, 1992). Thus, in line with the same argument, the findings of this study in three advertising exposures as compared to single ad-exposure also suggest that future advertising studies particularly on the effectiveness of advertisements should follow three advertising exposures as a sound and more reliable base for understanding a particular advertising phenomenon.

## **7. Contribution of the Study**

One of the foremost contributions that the finding of this study has made is the clarity about the assessment of advertisements in three advertising exposures compared to single ad-exposure. Numerous studies have investigated the effectiveness of advertising related phenomenon in just single advertising exposure (Till and Baack, 2005; Stone *et al*, 2000; Ang and Low, 2000). The results of this study in single and three advertising exposures provide sufficient evidence that results for the assessment of advertising effectiveness may be different if the assessment is done in more than single ad-exposure, that is, three ad-exposures. Numerous studies have pointed out single exposure as one of the main reasons for conflict in their results with previous research studies (Till and Baack, 2005; Ang and Low, 2000). The results of this study indicate that single exposure may not truly depict the real nature of an advertisement as compared to three advertising exposures.

Another useful and important contribution of this study is concerned with the validation of advertising exposure theory. The more persuasive findings of this study for advertisements in three advertising exposures as compared to single exposure provide evidence that experimental studies concerning the effectiveness of advertisements should be conducted in more than one exposure. The results of this study also implies that if a television commercial is shown three times in a commercial break during a television program as compared to just single time exposure, the television commercial will be relatively more effective.



## 8. Future Research

One of the limitations of this study is the use of students as the unit of analysis. The use of students in this research was mainly based on the specific experimental requirements of this study. As a matter of fact, the use of students sample is conventional in advertising research studies, particularly in lab-experiments; however, it limits the ability to generalize the findings of the study. In future, such study should be replicated with a non-student sample to conclude whether these findings can be generalized to other segments of the population.

Finally, unlike developed countries where university setting is commonly used for experimental research, the lack of tendency towards experimental research among university students in Pakistan may have affected the findings of the study. Hence, it is also suggested that such study should be replicated in some developed country to further understand the effectiveness of three advertising exposures as compared to single exposure.

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**A concise understanding of the evaluation process under the International Joint  
Science and Technology Agreements in South Africa**

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## **ABSTRACT**

The evaluation or the review process forms an integral role in the success of any funding organisation. The evaluation process at the National Research foundation has been studied and recommendations were prepared to implement across all NRF programme. However, the recommendations made were difficult or almost impossible to implement under the International Research Programme at the NRF. The primary reason was that each country has an evaluation system of its own and tends to differ from the one used by NRF. Most collaborating countries within the international programme may not be willing to change their system in order to make it congruence to that of the NRF of SA. Moreover, the NRF does not expect or wish them to change their review system. The use of the various tools in research management such as peer review and bibliometric analysis has come under the scrutiny at the NRF lately.

**Keywords:** bibliometric, peer review, criteria, evaluation

## **PROBLEM STATEMENT AND RESEARCH OBJECTIVE**

The evaluation process has received much attention at the NRF under the International Research directorate recently. Studies and reviews have been done on this process; however, the views of stakeholders vary extensively nationally and internationally. The various components namely; bibliometric analysis and the peer review process have been questioned by many, however, no defined solutions have been developed. This study was prompted to determine innovative ways to improve on these two components of the evaluation process as used by the NRF. The focus of this paper is on the practise and management of peer review and not on the concept itself.

## **LITERATURE REVIEW**

Assessments of quality and productivity of academic research programs become more and more important in gaining financial support, in hiring and promoting research staff, and in building academic reputation. Most of these assessments are based on peer review (Groot and Valderaama, 2006: 1362). Currently, researchers are being measured on their quantity

and quality of their research outputs to an extent whereby, promotion decisions are based on research outputs in high impact journals (Ballas and Theoharakis, 2003:620, 622). This is quite common in the United States. Substantial effort is being invested in designing reliable and valuable systems for the evaluation of research output (Groot and Valderaama, 2006: 1362).

Two methods are commonly used, namely: the peer review method and the bibliometric method. The peer review method includes a wide variety of quality variables in the final decision making process, taking into consideration the current status of the researcher, challenges and opportunities they visage and future potential. The peer review result is, however, subjective and the results from these reviews maybe dependant on the orientation of the evaluator's research interests, experience and knowledge (Nederhof and van Raan, 1987: 335; Brinn, Jones and Pendelbury, 1996:266). Peer review decisions are strongly dependant on the composition of the peer review committee (Groot and Valderaama, 2006: 1364).

Recently, substantial effort has been invested to assess research performance more objectively by developing bibliometric methods, however, according to Nederhof and van Raan (1993: 355) bibliometric methods also have has its own disadvantages as it is restricted to written output and the assessment of publication counts are strongly dependant on citation trends in the different fields of study. Utilizing the number of publications is the most simplest method, nevertheless, this fails to identify the differences in academic quality (Dwyer, 1994: 232, 233). The number of citations maybe used to assess academic quality, but , the results are strongly dependant on the number of journals included in the analysis (Newman and Cooper, 1993; Ballas and Theoharakis, 2003: 620).

As pointed out by Brown and Gardner, (1985: 85, 86). in many instances, citations scores maybe inflated and the element of bias will in favour of popular authors and well established journals. Popular research fields and topics may also inflate citation scores. Another approach to consider is to measure the number of published articles using the relevant journal's impact scores (number of times an article in a journal is cited by another journal) (Dyckmanand and Zeff, 1984:226, 227; Newman and Cooper, 1993:519, 520). Journal quality may, however, be influenced by varying opinion amongst evaluators regarding relevant evaluation criteria. These differences may be influenced by biases which

are not representative of the opinions of all evaluators as some evaluators tend to rate the journals higher for which they have served as reviewers or contributors (Brown and Huefner, 1994: 225). There could no bibliometric system capable of objectively assessing academic quality without bias and measurement error. Nederhof and Van Raan, (1993) have deduced that peer review and bibliometric research can be complementary and mutually supportive (Nederhof and van Raan, 1987: 332, 335). Another study exhibits a mutual relationship between impact scores and peer review results, however, no relationship between peer review results and total number of publications (Rinia, van Leeuwen, van Vuren and van Raan, 1998: 96).

### **ENVISAGED RESEARCH DESIGN AND METHODOLOGY**

Research projects from six countries from six fields of study will be chosen. The projects submitted by the researchers will be put through the current peer review and bibliometric processes at the NRF. The reviewers for the peer review process will be chosen to review the application in their respective fields of study. The bibliometric analysis will be performed by the designated personnel at the NRF.

### **PRELIMINARY FINDINGS (IF AVAILABLE)**

The findings were based experience, however, a full study will be conducted.

### **CONCLUSIONS AND MANAGERIAL IMPLICATIONS/RECOMMENDATIONS**

- For the evaluation process under the international division to improve, a strategy for monitoring the evaluation and its effectiveness should be developed by NRF and the relevant stakeholders.
- The combination of both bibliometrics and peer review system could be used to improve the overall evaluation process.
- The peer review process should also include reviewers from other countries.

- It is imperative to state the reviewers in the peer review processes are not paid and this is one of the possible reasons for reviewers not performing or completing reviews of quality for the NRF.

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# **An investigation into the determinants of access to finance by small and medium enterprises in King William's Town South Africa**

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## Abstract

The primary of the study was to investigate the determinants of access to debt finance by SMEs in South Africa. As a result a 19-item questionnaire was developed after a thorough review of literature on five factors (networking, collateral, business information, managerial competences and age and size of the firm) and access to debt finance. The measuring instrument used was self administered questionnaire. The statistical analyses used in analysing the data included the descriptive statistics, Pearson's correlation and logistics regression. The research findings were: There are significant relationships between collateral, managerial competency, business information, age and size of the firm and access to finance by SMEs from commercial banks. The results also indicate that there is no significant relationship between networking and access to finance by SMEs from commercial banks. The study recommended that SMEs owner managers should be investment ready by providing collateral, attending seminars and training programmes to improve their competence. Government can also help by organising training sessions for SMEs owner /managers.

Key Words: determinants, access to debt, SMEs

## **BRAND PERSONIFICATION ON SOCIAL MEDIA NETWORKS: WILL BRAND AWARENESS AND BRAND LOYALTY BE INCREASED?**

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# **BRAND PERSONIFICATION ON SOCIAL MEDIA NETWORKS: WILL BRAND AWARENESS AND BRAND LOYALTY BE INCREASED?**

## **ABSTRACT**

There has not been extensive research conducted on how an organisation's corporate brand, on social media networks, can be a favourable asset in enhancing brand awareness and brand loyalty. In this study the main research aim was to investigate and measure the perception of students at the University of Pretoria with regard to brand personification on social media networks and whether it will increase brand awareness and brand loyalty. This was done through a literature review focussing on the key elements (brand personification, social media networks, brand awareness and brand loyalty), and also through the analysis of captured data from a quantitative survey. The target population for this study consists of students from the University of Pretoria. Data was collected from a sample of 320 respondents through a structured survey questionnaire. Questionnaires were either completed through directly handed out paper based surveys on campus or by completing an indirect online survey on SurveyMonkey. The data collected in this way was quantitative and analysed with the SPSS statistical programme. Appropriate descriptive statistics were prepared and statistical tests were also conducted to test two formulated hypotheses. An implication for management is that the chosen sample size needs to be more representative of a bigger sample population and that organisations need to be aware of how their corporate brand is being portrayed on social media networks. This study concluded that a positive correlation exists between brand personification on social media networks and that it has a positive increasing effect on brand awareness and brand loyalty.

## **INTRODUCTION**

### **BACKGROUND**

In this day and age, it is becoming increasingly clear that organisations have to focus on how their corporate brand is portrayed in the digital world. Social media networking sites like Facebook, Myspace, Twitter and Blogger have created the opportunity for organisations to interact with their stakeholders faster and more easily and quicker. Although some organisations are already placing emphasis on their corporate brand, some organisations do not care about how their brand is reflected towards different stakeholders on social media networking sites. An organisation's corporate brand is however very important and it is necessary that organisations focus on how they can use brand personification on these social media networking sites to help enhance the organisation's brand awareness and brand loyalty.

The importance of an organisation's corporate brand is seen in the way it links with other fields of study. An organisation's corporate brand can be linked to: brand loyalty and the theory of social identification (Kim, Han & Park, 2001); brand loyalty and website usage (Thorbjornsen & Supphellen, 2003); and word of mouth communication within online communities and online social networks (Brown, Broderick & Lee, 2007). The main links for this study however is between brand personification, social media networks, brand awareness and brand loyalty.

### **STUDY PURPOSE**

In this study the main purpose is to investigate and measure the perception of students at the University of Pretoria with regard to brand personification on social media networks and whether it will increase brand awareness and brand loyalty. To effectively focus on this core research issue a quantitative survey among students of the University of Pretoria will be conducted.

The following research questions will be used to help focus on the proposed research issue:

- What is a corporate brand?

- What does the terms social media networks and brand personification mean?
- Are students actively engaged in social media networks?
- What are students' perceptions regarding brand personification on social media networks?
- What are students' perceptions regarding brand awareness and brand loyalty on social media networks?

## **RESEARCH AIM**

The aim of this study is firstly to investigate the perception of brand personification on social media networks among students from the University of Pretoria. This research aim will be to determine and describe if brand personification on social media networks affects the awareness and loyalty elements of a corporate brand. A literature review will be done and a measurement rating scale, containing questions regarding the key aspects in question, will be developed.

## **Research objectives**

The following specific research objectives will be studied and discussed:

- To define a corporate brand, brand awareness and brand loyalty
- To investigate how corporate brands are portrayed on social media networks
- To investigate if corporate brands are being personified on social media networks
- To determine if brand personification on social media networks will affect brand awareness
- To determine if brand personification on social media networks will affect brand loyalty

Data gathering for this study will be conducted in South Africa with students at the University of Pretoria through either paper based questionnaires on campus or through digitally distributed questionnaires on SurveyMonkey (<http://www.surveymonkey.com>).

The study will firstly be a literature review focussing on the following areas: defining the terms brand; social media networks; brand personification; brand awareness and brand loyalty.

Secondly after focusing on the literature review, the methodology (sampling, data collection and measurement) and results (hypotheses and summary of results) will be investigated. Thirdly a concluding discussion, which focuses on the summary of findings, managerial implications, limitations and recommendations for further future research, will follow.

## **LITERATURE REVIEW**

### **DEFINING THE TERM: BRAND**

Extensive attention and definitions have been provided for the term brand and therefore Lamb, Hair, McDaniel, Boshoff and Terblanche (2004:230) established the following definition: a brand is a name, term, symbol, design, or combination thereof that identifies a seller's products and differentiates them from competitors' products. They further explained that a brand name is that part of a brand that can be verbalised, including letters, words, and numbers. These authors emphasise that a brand is about intangibles such as trust, loyalty, friendship, and belonging.

### **DEFINING THE TERM: SOCIAL MEDIA NETWORKS**

With the rise of globalisation and the Internet, Social Media Networks (SMN) (also known as Social Network Sites or Online Social Communities) have become one of the most popular ways of communication in this modern age (Bosch, 2010:185).

According to Wehrli (2008:3), Social Network Sites (SNS) for example MySpace, LinkedIn, Friendster, and Facebook have seen a lot of growth and increased in popularity over the past few years. Blogger, Twitter, YouTube, Vodcasts, and BeBo are also examples according to Dillenberger (2009:14). Bosch (2010:185) believes this is because users can share

information between one another through applications like Wikis, RSS news feeds, blogs, and podcasts.

Through research conducted by Young (2009:40), it was found that individuals who participate in Social Media Networks (SMN) use language, multimedia and technology to create online identities. These online identities permanently “stands in” for their physical self and are much more than just a collection of online “friends”. The author continues that by engaging in SMN activities, users start to develop knowledge and become skilled to participate in the new structures of socialisation available in the digital era.

In 2007, Boyd and Ellison (in Wehrli, 2008:3) characterised SNS as a form of computer-mediated communication. They continued to explain that SMN can be seen as a web-based service that allows individuals to: construct a web presence usually including a photo and descriptors like location, age, study concentration and interests; publicly display a list of other users with whom they share a connection; and to traverse those list of connections to view the profiles of others within the system.

There are also risks associated with Social Media Networks (SMN) and Bartkiewicz (2008:28) found these to be: data privacy breaches (many people post intensely personal information about themselves on these networks that can easily be used); intellectual property violations (threatening brand identities and reputation); and media / advertising risks (dissemination of false, misleading or harmful information).

## **DEFINING THE TERM: BRAND PERSONIFICATION**

There are several different projective techniques to understand brand imagery, brand personalities, and their relations to life. Kay (2001:10) believes that brand personification is an industry standard projective technique. This technique investigates for example who and what the brand would be if it could come to life, where it would live, who its friends would be, and what it would wear. Taking this into account this can be dangerous because sometimes the personalities of highly valued brands turn out to have a scandalous past and are less serious than one might envision. This makes the marketing of a brand very difficult.

There are many variations of the brand personification technique. For example a brand could be projected onto a celebrity or a cartoon character. Lastly the author adds that having respondents write obituaries about the brand or a person can be revealing and helps with strategic brand planning.

The authors Kim, Han, and Park (2001:195) also explained that brand personality is when human characteristics could be associated with a brand. They continue to add that brand personality comprises of at least five dimensions, namely: sincerity, excitement, competence, sophistication, and ruggedness.

### **DEFINING THE TERM: BRAND AWARENESS**

Temporal (2002:5) defines brand awareness simply as a key measure that helps determine the strength of a brand concerned with how well a brand is known in the market. Pappu, Quester and Cooksey (2005:145) emphasises this by elaborating that brand awareness refers to the strength of a brand's presence in consumers' minds, and that it is conceptualised as consisting of both brand recognition and brand recall.

It is also important to notice that according to Lamb, Hair, McDaniel, Boshoff and Terblanche (2004:233), brand awareness does not necessarily lead to profitability. These authors use the example of the South African telecommunication service Telkom to explain that Telkom might be a brand that everyone might be aware of, but it does not mean the company is profitable.

The literature review on the key terms and examined fields of research helped form the basis of this study's hypotheses which are stated (see section 5.1 Hypotheses, p. 11).

### **DEFINING THE TERM: BRAND LOYALTY**

Before investigating what the term brand loyalty means, it is important to consider the notion of habitual buyer behaviour. This behaviour is when satisfaction is entrenched on past experiences and the decision making process is simplified by reducing the need for



information search and brand evaluation (Du Plessis & Rousseau, 2003:124). Consumers will repeatedly then purchase what satisfies them most, leading to brand loyalty.

Jacoby and Kyner (in Oh & Fiorito, 2002:208) identified that brand loyalty consists of six elements. These are: biased behaviour, responding behaviour, continuous behaviour, decision-making behaviour, decision among alternatives, and concerted decision-making processes. Pappu, Quester and Cooksey (2005:145) add that brand loyalty is also based upon attitudinal perspectives and consumer perceptions.

Du Plessis and Rousseau (2003:124) lastly identifies that brand loyalty implies commitment to repurchase and therefore involvement with a product or brand.

## **METHODOLOGY**

### **SAMPLING**

#### **Target population and context**

- **Description of target population, context and units of analysis**

The target population for this study consists of students on the main campus of a University in Pretoria. The units of analysis are the individual students.

- **Motivation for chosen target population and context**

The target population was chosen because the study focuses on the perception of individual students from the University of Pretoria. The focus is on their perceptions of the relationship between brand personification, within the context of social media networks, on brand awareness as well as brand loyalty. 320 surveys were completed (210 direct student paper based survey interviews, as hand outs on campus, and 110 indirect online surveys, were done). Students had to rate their perception of brand personification on social media networks through questions on a Likert type scale (1 indicating Strongly Disagree, 5 indicating Strongly Agree).

### **Sampling method and sample size**

The study aimed to achieve a minimum sample size of 200 respondents through convenience sampling. The actual sample size was 320 respondents. The sample size is in line with the requirements set for a Masters (course work) study (University of Pretoria, 2010). Quantitative data was collected through 320 surveys that were completed (210 direct student paper based survey interviews, as hand outs on campus, and 110 indirect online surveys, were done).

### **Profile of participants / Respondent profile**

The sample size was 320 students at the University of Pretoria. Male (44.7%) and female students (55.3%) had to indicate in which age group they are (“18 or younger”; “19 -25”; “26 – 35” or “36 – older”). One respondent indicated that she is “36 – older”, so for the purpose of more accurate data analysis the respondent’s value was changed to a missing value.

## **DATA COLLECTION**

### **Data collection methods**

#### **· Pre-testing of data collection instrument**

Using Cooper and Schindler’s (2008:369) participant pre-testing method a draft data collection instrument was developed as a questionnaire at the beginning of March 2010. The aspects being tested during the pre-test were participant interest, continuity and flow, question sequencing, and length and time to complete.

Respondents in the pre-test understood all the questions in the questionnaire and indicated that each question was a unique question, and there were no repetitive questions. Some of the respondents answered the questionnaire very fast and indicated that it took them less than 10 minutes. The majority of respondents did take approximately 5 minutes to successfully complete the questionnaire. There were no screening questions or skip instructions.

Respondents interpreted the rating scale mid-point correctly as neither agree nor disagree. There were no questions that respondents regarded as sensitive or potentially embarrassing.

Draft questionnaires were given to 10 individual students to pre-test and identify if there were certain areas or questions that would be unclear to respondents. An interviewer was also available to answer any questions that the respondents might have had or to clarify any uncertainties in the questionnaire.

Respondents indicated that they understood the questions, that the questionnaire was easy to complete, and that it did not take too much time. No changes were necessary to be made to the draft questionnaire after the pre-testing. Appendix A (p. 24) contains a copy of the final questionnaire.

### **Data collection instruments**

The data collection method used for this study was campus intercept paper based hand outs and online distributed surveys with students from the University of Pretoria. During this study quantitative survey research was gathered which assisted with the testing of proposed hypotheses (see section 5.1 Hypotheses, p. 11).

Individual students were selected and asked to partake in the 5 minute survey. Respondents did not receive incentives to encourage them to participate in the survey. The major disadvantages of this data collection method is that it required an extensive period of time in the field collecting data, the survey could not be long or complex, some participants could experience anxiety, and if a follow-up survey needs to be conducted then it would be impossible to get hold of the same respondents (because respondents did not provide contact information and they remain anonymous). The major disadvantages with the online surveys were that it was impossible to monitor which potential participants actually became reliable respondents.

## MEASUREMENT

A completely new questionnaire with a new measuring scale had to be developed as no previous research could be found that included a questionnaire that specifically focuses on brand personification through social media networking. The Likert type scale was used for Section A (Brand personification) and multi-choice single response scales were used for Section B (Biographic information).

The Likert type scale in Section A had five scale points and measured 10 items, scale point 1 indicate strongly disagree and scale point 5 indicates strongly agree. This scale measured a respondent's perception in a quantitative way through either a favourable or an unfavourable attitude towards the problem stated (Cooper & Schindler, 2008:308). No items or questions in the final questionnaire were reverse scored.

In section A questions 1 to 2 focus on social media / online communities; questions 3, 4 and 5 focuses on brand personification; questions 6 (brand recognition) and 7 (brand recall) focus on brand awareness; and questions 8 (decision among alternatives), 9 (continuous behaviour) and 10 (biased behaviour) focus on brand loyalty.

In Section B the biographical information that was measured included age and gender. An interval / ratio multiple choice, single response scale with the options "18 or younger"; "19 - 25"; "26 - 35" or "36 - older" was presented in question 1 to identify the age of the respondent. A dichotomous multiple choice, single response scale with the options "male" and "female" was presented in question 2 to identify the gender of the respondent.

Based on previous published research by Carmeli (2004:326) about perceived external prestige and performance using a Likert type scale, the internal consistency reliability (i.e. Cronbach's alpha value) was 0.65. However, in 1967 Nunnally suggested that for early stages of basic research, if reliability falls between 0.5 and 0.6, then it will be sufficient (Churchill, 1976:68). A lower Cronbach's alpha value is therefore acceptable and will be used as a guideline when investigating the results of this exploratory study in the South African context. The Cronbach's alpha value for all ten scale items / questions was 0.66.

## RESULTS

### HYPOTHESES

A questionnaire was developed that help investigate the two hypotheses ( $H_1$  to  $H_2$ ) that focuses on if brand personification on social media networks will increase both brand awareness and brand loyalty. These include:

$H_{1(\text{null})}$ : Brand personification on social media networks will not have a significant effect on the increase of brand awareness.

$H_{1(\text{alt})}$ : Brand personification on social media networks will have a significant effect on the increase of brand awareness.

$H_{2(\text{null})}$ : Brand personification on social media networks will not have a significant effect on the increase of brand loyalty.

$H_{2(\text{alt})}$ : Brand personification on social media networks will have a significant effect on the increase of brand loyalty.

Both hypotheses are two-tailed (non-directional) and were tested at a 5% level of significance (i.e.,  $\alpha = 0.05$ ).

Since the key elements mentioned were measured at an interval level of measurement, the appropriate parametric significance test is the independent sample t-test. If its assumptions cannot be satisfied, the Mann-Whitney U-test can be used as a non-parametric alternative (Pallant, 2001:106).

The independent sample t-test has two assumptions: Firstly, it assumes that the variables on which the two groups are compared have a normal distribution in both populations. Secondly, it assumes that the variables on which the two groups are being compared have an equal variance in both populations (Pallant, 2001:106).

The assumption of normality was assessed through the Kolmogorov-Smirnov test for normality, as well as through a visual inspection of histograms and normal probability plots (Pallant, 2001:106).

Since the data does not violate the assumptions of normality, the independent sample t-test was used to test the stated hypotheses.

## SUMMARY OF RESULTS

The achieved sample in this study was 320 students from the University of Pretoria. 210 surveys were paper based on campus hand outs using a convenience approach and 110 responses were obtained online using SurveyMonkey (<http://www.surveymonkey.com>) as a web-based survey instrument. Respondents were required to rate their perceptions by responding to questions on a Likert type scale (with 1 indicating Strongly Disagree, up to 5 indicating Strongly Agree). Appendix A (p. 24) contains a copy of the final questionnaire depicting the questions.

Table 1 depicts the age and gender distribution of respondents. The results are as determined by a multi-choice single response scale.

**TABLE 1**  
**AGE AND GENDER DISTRIBUTION IN SAMPLE**

Age	Frequency	Percent	Cumulative Percent
<b>18 or younger</b>	34	10.6	10.6
<b>19 - 25</b>	249	77.8	88.4
<b>26 - 35</b>	36	11.3	99.7
<b>36 - older</b>	1	0.3	100.0
Gender	Frequency	Percent	Cumulative Percent
<b>Male</b>	143	44.7	44.7
<b>Female</b>	177	55.3	100.0

According to Table 1 the majority of respondents, 77.8% were in the age group “19 -25”. Only one respondent was in the age group “36 – older” and was excluded from any further

analysis. When focusing on gender, the majority of respondents was female (55.3%) compared to male respondents (44.7%).

Table 2 depicts descriptive statistics to brand personification items and uses the Likert type scale.

**TABLE 2**  
**DESCRIPTIVE STATISTICS FOR BRAND PERSONIFICATION ITEMS**

(N=320), Min=1, Max=5		Me an	Std. Deviat ion		
1. Social media network participation		4.10	0.96		
2. Social media network participation		3.94	0.91		
3. Brand personification (observation)		3.83	0.90		
<b>Rotated Component Matrix<sup>a</sup></b>					
Question	Factor or Principle Components				Comm munality estimates
	1=Social media participation	2=Brand loyalty	3=Brand awareness	4=Brand personification	
I enjoy interacting on a social media network	0.89				0.82
I enjoy being part of a social media network (i.e. Facebook)	0.87				0.79
If I have purchased brands that appear on social media networks once, then I will continue to purchase them		0.83			0.72
I would rather purchase brands that appear on social media networks than brands that are not on social media networks		0.80		3.19	1.00
If I want to be friends with a brand but it is not available on the social media network that I use most often, I will switch to another social medium network where it is available		0.59		0.47	0.61
I am able to recognise the brands that I have seen on social media networks, when I see them offline (i.e. on posters, in stores, in magazines)			0.79		0.74

(N=320), Min=1, Max=5				Me an	Std. Deviat ion
I have noticed that there are brands that have created a presence on social media networks	0.43		0.68		
I can easily remember how brands on social media networks look, when I think of them			0.68		
I feel I can express myself through different brands on social media networks					
I feel as if the brands have human qualities on social media networks (i.e. inviting me to become a friend, fan or supporter)					
Eigenvalue	3.40	1.74	1.14		
% of Variance explained	34.00	17.41	11.37		
Cumulative % of variation explained	34.00	51.41	62.79		
Items in reliability analysis	Q1, Q2	Q8, Q9, Q11	Q3, Q6, Q8		
Cronbach's coefficient alpha	0.83	0.67	0.67		
4. Brand personification (self-expression)					
5. Brand personification (human qualities)					3.35
6. Brand awareness (recognition)					3.73
7. Brand awareness (recall)					3.48
8. Brand loyalty (decision among alternatives)					2.73
9. Brand loyalty (continuous behaviour)					2.89
10. Brand loyalty (biased behaviour)					2.33

Applying principal component exploratory factor analysis assist to reduce dimensionality in a research instrument, by identifying separate dimensions or factors in the covariance structure between items, and then determines the extent to which each variable is explained by each dimension (Hair, Anderson, Tatham & Black, 1998:88). The ten items were subjected to such an exploratory factor analysis.

Table 3 provides the rotated component matrix, communality estimates and the estimated factor loadings (for example Q1 and Q2 have high factor loadings and can be interpreted to focus on social media participation). With the Cronbach's alpha value as measurement of reliability, ranging between 0 and 1, factors were extracted that focus on the four key areas of this study. These factors are: social media participation; brand awareness; brand loyalty; and



brand personification. Brand personification had the highest cumulative percentage with 71,09% and social media participation had the lowest cumulative percentage with 34,00%. The highest Cronbach's alpha value was indicated as 0.83 for social media participation, the highest reliability measurement, and the lowest as 0.65 for brand personification, the least reliable measurement.

**Table 3: Rotated Component Matrix and Community Estimates**

Table 4 shows the F-values and significance for each of the four factors by focusing on age. The significance level (also known as alpha) is associated with the statistical testing of the differences between two or more factors. Small alpha values (for example 0.05 or 0.1) lead to rejection of the null hypothesis and shows that the data supports the alternative hypothesis (Hair, Anderson, Tatham & Black, 1998:327).

**Table 4: Results of One-way ANOVA on brand personification factors across age groups**

Q2_Age		F1: Social media participation	F2: Brand loyalty	F3: Brand awareness	F4: Brand personification
18 or younger N=34	Mean	3.88	3.02	3.99	3.50
	Std. Deviation	1.09	0.85	0.58	0.77
19 – 25 N=249	Mean	4.02	2.63	3.67	3.26
	Std. Deviation	0.83	0.83	0.74	0.89
26 – 35 N=36	Mean	4.15	2.44	3.45	3.13
	Std. Deviation	0.84	0.68	0.94	0.94
Total	Mean	4.02	2.65	3.68	3.27
	Std. Deviation	0.86	0.83	0.76	0.88
F-value		0.86	4.81	4.52	1.66
Significance		0.42	0.01	0.01	0.19

Table 4 also assist with the analysis of the stated hypotheses. Focusing on the mean values it is evident that Factor 1: Social media participation was the highest with a value of 4.02, followed by Factor 3: Brand awareness with a value of 3.68. The lowest mean value was 2.65 for Factor 2: brand loyalty. Analysing the results it is evident that students are participating on social media networks and that brand personification does have a positive effect on brand awareness and brand loyalty.

Tables 5 and 6 provide results of an independent sample t-test. The t-test was used to assess the statistical significance of the difference between two sample means for a single dependent variable. Hair, Anderson, Tatham and Black (1998:330), applied the t-test as a special case of ANOVA for two groups or levels of a treatment variable.

**Table 5: Constructs measurement and scale items**

Gender (Male=143,Female=177)		Mean	Std. Deviation	Std. Error Mean
<b>F1: Social media participation</b>	Male	3.96	0.85	0.07
	Female	4.06	0.87	0.07
<b>F2: Brand loyalty</b>	Male	2.65	0.87	0.07
	Female	2.65	0.79	0.06
<b>F3: Brand awareness</b>	Male	3.66	0.82	0.07
	Female	3.70	0.72	0.05
<b>F4: Brand personification</b>	Male	3.24	0.90	0.07
	Female	3.29	0.87	0.07

Table 5 shows that the highest mean value for male respondents was 3.96 for Factor 1: Social media participation, and the lowest for 2.65 for Factor 2: Brand loyalty. The highest mean value for female respondents was 4.06 for Factor 1: Social media participation, and the lowest for 2.65 for Factor 1: Brand loyalty. Although the overall highest mean value was for female and the lowest mean value were similar for male and female at 2.65. Therefore female respondents are more engaged with social media networks than male respondents.

Table 6 summarises the independent samples test, determining the equal variances assumed and not assumed for the four stated factors.

**Table 6: Independent Samples Test**

		Significance	t-test for Equality of Means		
			t	df	Sig. (2-tailed)
<b>F1: Social media participation</b>	Equal variances assumed	0.94	-1.07	318.00	0.286

		Significance	t-test for Equality of Means		
			t	df	Sig. (2-tailed)
	Equal variances not assumed		-1.07	305.73	0.285
F2: Brand loyalty	Equal variances assumed	0.38	0.03	318.00	0.975
	Equal variances not assumed		0.03	290.40	0.975
F3: Brand awareness	Equal variances assumed	0.18	-0.48	318.00	0.630
	Equal variances not assumed		-0.48	284.75	0.634
F4: Brand personification	Equal variances assumed	0.55	-0.56	318.00	0.574
	Equal variances not assumed		-0.56	301.00	0.574

The highest significance value was 0.94 for equal variance assumed, focusing on Factor 1: Social media participation. The lowest significance value was 0.18 for equal variance assumed, focusing on Factor 3: Brand awareness.

Table 7 indicates that there is a significant positive correlation among the different factors. Cooper and Schindler (2008:701) showed that correlation focuses on the relationship by which two or more variables change together, in such a manner that systematic changes in one accompany systematic changes in the other.

**Table 7: Correlations**

N=320	F1: Social media participation	F2: Brand loyalty	F3: Brand awareness	F4: Brand personification

<b>F1: Social media participation</b>	<b>Pearson Correlation</b>	1	0.118*	0.236**	0.382**
	<b>Sig. (2-tailed)</b>		0.034	0.000	0.000
<b>F2: Brand loyalty</b>	<b>Pearson Correlation</b>	0.118*	1	0.363**	0.355**
	<b>Sig. (2-tailed)</b>	0.034		0.000	0.000
<b>F3: Brand awareness</b>	<b>Pearson Correlation</b>	0.236**	0.363**	1	0.494**
	<b>Sig. (2-tailed)</b>	0.000	0.000		0.000
<b>F4: Brand personification</b>	<b>Pearson Correlation</b>	0.382**	0.355**	0.494**	1
	<b>Sig. (2-tailed)</b>	0.000	0.000	0.000	

The highest correlating value was 0.494 between Factor 3: Brand awareness and Factor 4: Brand personification. The lowest correlating value was 0.118 between Factor 1: Social media participation and Factor 2: Brand loyalty. Therefore, there is a relatively strong correlation between Factor 3: Brand awareness and Factor 4: Brand personification.

## **DISCUSSION**

This study investigated perceptions of students from the University of Pretoria regarding brand personification on social media networks and if it would increase brand awareness and brand loyalty. A literature review was conducted to help understand the key terms and help formulate the stated hypotheses. A new questionnaire which focuses on the of brand personification on social media networks, brand awareness and brand loyalty had to be developed as no previous research and questionnaires combining these different areas were available. Quantitative research was gathered through paper-based and online distributed surveys to students from the University of Pretoria, as study respondents.

## **SUMMARY OF FINDINGS**

There were certain specific research objectives that were investigated in the literature review section. These included defining key terms like brand, social media networks, brand

personification, brand awareness and brand loyalty. The other specific research objective was capturing and interpreting data from questionnaires that students, as respondents, completed. This included the perception of brand personification on social media networks and if it would increase brand awareness and brand loyalty.

The questionnaire findings indicated that students do feel that brand personification on social media networks does increase brand awareness, but are still to some extent unsure of its effect on brand loyalty. Male students and female students' perceptions do not differ significantly with regards to the stated hypotheses and are very similar.

Through the analysis of the captured data, it was determined that the alternative hypotheses for both  $H_1$  and  $H_2$  were evaluated as correct. Although it seems that students agree that  $H_{1(alt)}$  and  $H_{2(alt)}$  is correct, they are still hesitant and unsure about the effect brand personification on social media networks have on brand loyalty. Therefore the alternative hypotheses for both stated hypotheses are seen to be correct. This concludes that brand personification on social media networks does increase brand awareness and also brand loyalty.

## **MANAGERIAL IMPLICATIONS**

Today, with the latest marketing strategies and technology, an organisation or an institution can communicate more effectively with its target market and stakeholders. With the increase of internet users it is important for organisations to create a relationship between the organisation's brand and the consumer. It also creates the opportunity to develop and build an organisation's brand which will affect how these stakeholders see and experience an organisation. Therefore it is imperative to ensure that the brand of an organisation receives attention and is strategically personified on social media networks.

This study also indicates that, through brand personification on social media networks, organisations can increase brand awareness and brand loyalty. Even though the respondents were to some extent unsure about the effect of brand personification on brand loyalty, it still indicated it has an impact on brand loyalty. Therefore, in conclusion, if organisations

implement brand personification correctly on social media networks then they will see an increase in brand awareness and brand loyalty.

## **LIMITATIONS**

One of the biggest limitations in this study was the way data capturing occurred. The paper based surveys were distributed on the Hatfield campus of the University of Pretoria only and if the questionnaires were filled in on other campuses then the results might have being different. It was difficult to monitor which potential participants became respondents with regards to the online surveys that were distributed through SurveyMonkey. Therefore, it can be concluded that the results of this study can not necessarily be generalised to other contexts.

The fact that this study focuses exclusively on a student sample is also a limitation. It is important to not only focus on the perception of students but also other stakeholders when investigating an organisation's corporate brand. For this study however the use of a student population or student sample is relevant because students represent an important market segment and the hypotheses stated focused on students specifically.

Although Nunnally (1967) suggested that for early stages of basic research, if the reliability falls between 0.5 and 0.6, then it will be sufficient. The low internal consistency reliability (i.e. the Cronbach's alpha value for all ten items / questions was 0.66) makes it difficult to exclude any items from the questionnaire rating scale. Furthermore, items in the rating scale could not be deleted because each item focused either on social media networking, brand personification or on sub-elements of corporate brands.

If respondents interpreted questions incorrectly or did not understand any of the questions, then certain errors could have occurred even if the interviewer was present. These include interviewer error, participant error, or response-based error. These errors did not occur or was limited because the questionnaire was pre-tested and the questions were constructed through several drafts. With the paper based questionnaires the interviewer was always present to assist if a respondent did not understand a question. With the online questionnaires however the interviewer could not be present and therefore participant errors or response-based errors could have occurred.

## **DIRECTIONS FOR FUTURE RESEARCH**

This study was limited to the elements brand awareness and brand loyalty when investigating an organisation's corporate brand. These brand elements are very important but there are more elements that an organisation should focus on. Linking an organisation's corporate brand with other fields of research, for example relationship management might also assist to develop brand awareness and brand loyalty.

Although this study was done on a limited scale, a similar study should be conducted on a larger scale. If the study focuses on for example the University of Pretoria then all the campuses need to be included and a larger sample population needs to be used. This study for example focused solely on 320 students at the University of Pretoria's Hatfield campus, but it is important to include or expand the research to as much as possible other stakeholders of an organisation (for example personnel).

Interesting research can also be conducted to see if brand personification on social media networks will be more effective with different types of personalities. For example, if an introvert would visit a social media site more often than an extrovert, he or she could become more aware or loyal towards certain personified brands.

The frequency of different age groups or target markets regarding social media participation can also be investigated. For example, to see if school pupils visit social media network sites more often than adults, and become more aware and loyal to different brands.

Unfortunately the respondents did not have to indicate their time associated with the University of Pretoria. This could have had an interesting result in that respondents that had a longer association with the University of Pretoria could be more / better informed regarding brand personification on social media networks, brand awareness and brand loyalty.

## **CONCLUSION**

This study indicated that the stated alternative hypotheses:  $H_{1(\text{alt})}$  (*Brand personification on social media networks will have a significant effect on the increase of brand awareness*) and

$H_{2(\text{alt})}$  (*Brand personification on social media networks will have a significant effect on the increase of brand loyalty*) was not rejected. Therefore there is a positive correlation between brand personification on social media networks and it has a positive effect on brand awareness and brand loyalty.

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## Appendix A

Resp. no.

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<b>BRAND PERSONIFICATION</b>					
<b>Please read each statement below and circle the number that best reflects your view.</b>	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1. I enjoy being part of a social media network (i.e. Facebook)	1	2	3	4	5
2. I enjoy interacting on a social media network	1	2	3	4	5
3. I have noticed that there are brands that have created a presence on social media networks	1	2	3	4	5
4. I feel I can express myself through different brands on social media networks	1	2	3	4	5
5. I feel as if the brands have human qualities on social media networks (i.e. inviting me to become a friend, fan or supporter)	1	2	3	4	5
6. I am able to recognise the brands that I have seen on social media networks, when I see them offline (i.e. on posters, in stores, in magazines)	1	2	3	4	5
7. I can easily remember how brands on social media networks look, when I think of them	1	2	3	4	5
8. I would rather purchase brands that appear on social media networks than brands that are not on social media networks	1	2	3	4	5
9. If I have purchased brands that appear on social media networks once, then I will continue to purchase them	1	2	3	4	5
10. If I want to be friends with a brand but it is not available on the social media network that I use most often, I will switch to another social medium network where it is available	1	2	3	4	5

**ABSTRACT**

**(WORK-IN-PROGRESS STREAM)**

**TITLE OF PAPER**

*Constructive selfishness versus: Is this a more sustainable and faster driver of socio-economic development for African communities?*

**Paper to be presented at the SOUTHERN AFRICA INSTITUTE FOR MANAGEMENT SCIENTISTS (SAIMS) CONFERENCE**

**11-14 September 2011, The Riverside Hotel, Durban, R.S.A**

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**Paper Description: Potency of Constructive selfishness**

## **Title of the paper to be presented**

*Constructive selfishness versus: Is this a more sustainable and faster driver of socio-economic development for African communities?*

## **Introduction and brief background**

This research investigates a case for constructive selfishness as a better driver for economic and social development of communities with a special focus on improved service delivery in communities by leaders who really value themselves. Service delivery by leaders has become a major topical issue not only in local government but also at national government level. The research looks at whether leaders concerned can better serve their communities if they realize that the best way to be selfish is to serve others in ways that bring all honour, praise and a prolonged incumbency. A comparison of this philosophy and servant leadership in terms of potency to drive development is attempted.

## **Preliminary Literature Review**

A review of recent developments in South Africa in terms of leaders approach to service delivery as well as other global developments is made to enable relate these developments to the concept of constructive selfishness or the absence of it.

## **Research Design and Methodology**

Survey research methodology is employed with data on respondents views collected via a questionnaire drafted and distributed. Data is analyzed with the aid of percentages and tabulation of how respondents consider the potency of constructive selfishness.

## **Preliminary Findings**

None yet

## **Conclusions and managerial implications/recommendations (if appropriate)**

The research provides a basis to convince leaders about what it takes to contribute to faster and sustainable development and longer incumbency in these turbulent times.

# **DIFFUSION OF MARKETING EDUCATION AND RESEARCH IN AFRICA**

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**Key words:** marketing education, marketing research, marketing discipline, African continent

If our abstract is accepted, it will be presented by HB

## **Diffusion of Marketing Education and Research in Africa**

### **Introduction**

Research by Stremersch and Verhoef (2005) empirically shows how the globalization of marketing as a discipline has evolved. In particular how the North American dominance has faded with a spread to countries in other regions and continents. The shares of Asian and European scholars have consistently increased in the last decades.

### **The problem under investigation**

The diffusion of marketing education and research on the African continent remains unclear, as much of the activity in terms of education and research has stayed beneath the radar, due to various constraints identified in our study.

### **The purpose of the study**

The objective of this study is to describe and analyze how marketing education and research at universities and business schools have spread over the African continent in the past. In addition, our research will provide an overview of the current state of marketing education in Africa and its impact on the discipline in a global context.

### **Preliminary literature review**

Our starting point is the acknowledged relationship between business and marketing science and economic development in industrialized nations (Drucker, 1958; Hosley & Wee, 1988) and the potential of marketing education and research as a source of development in the Third World that has largely been ignored (Kotler 1982; Dholakia 1984; Van Wood & Vittell 1986).

## **Research design and methodology**

Data collection has already started in terms of gathering secondary information from universities and business schools' Internet websites and available annual reports, based on the top 100 African universities according to the Webometrics ranking of world universities. The hitherto collected data are organized on four levels: university, school, department and scholar level. In addition, we have started the process of primary data collection through a survey administered to African faculty members both per e-mail and in person. This is accompanied by a review of the relevant academic marketing literature with the aim of further theory development.

## **Preliminary findings**

Our preliminary findings suggest that a correlation between GDP and number of universities in African countries is observable. The majority (90%) of the top 100 African universities included in our sample is publicly owned with only 10% being privately owned. As much as 81% of the universities included in our sample have a Faculty of Economics or a Business School where marketing as a discipline is housed. From these, 26.7% explicitly mention a Marketing Department. The average number of students per Faculty/School/Department (N=51) has a high variance, ranging between publicly owned (N=26) to privately owned (N=5.6).

## **Conclusions and managerial implications/recommendations**

Although marketing education and research play an important role in the further socioeconomic development of countries and continents, the current state on the African continent is still unknown and needs to be researched further. The research findings so far provide first insights, which help to guide our further research based on primary data. By providing insight into the current state of marketing education and research in Africa and its contribution to the discipline in the broad, our research will be a starting point for future research and a source of policy



recommendations aimed at enhancing marketing diffusion and its impact on development of marketing as a truly global discipline.

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**EXPLORING THE FACTORS THAT INFLUENCE THE USE OF HAIR  
EXTENSIONS AMONGST BLACK AFRICAN WOMEN**

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## **EXPLORING THE FACTORS THAT INFLUENCE THE USE OF HAIR EXTENSIONS AMONGST BLACK AFRICAN WOMEN**

Various types of hair extension are widely used by black African women to enhance their beauty, to be fashionable, and for convenience. Though it is acknowledged that beautiful women have social and economic advantages, there is no universally accepted standard of beauty. This paper therefore a) explores why black African women use different types of hair extensions, and b) examines the influence of the women's value priorities on their hairstyle preferences.

A convenience sample of 87 black African women (18 year-olds and above) responded to an online survey consisting of both quantitative and qualitative questions. The main aim of the survey was to capture the women's preference for different hairstyles and their value priorities using Schwartz's Portrait Values Questionnaire.

The findings suggest that convenience (e.g., ease of maintenance) is considered a more important reason for using hair extensions than beauty enhancement. The majority of respondents reported high levels of openness to changes values, an indication that they were more likely to prioritize independent thought and to try new hairstyles. Though values are an important precursor to consumer behaviour, this study found that the women's value priorities explained only 14.6 percent of the variance in hairstyle preferences. Only one value type, namely achievement, was found to have a significant influence on two of the eight hairstyles that were rated by the respondents.

The study concluded that though beauty enhancement is considered the main reason why black African women use hair extensions; there are other important need segments such as convenience that marketers need to be aware of.

*Key words:* beauty, hairstyles, hair extensions, black African women

# **HOW IMPORTANT IS INNOVATION IN A TELECOMMUNICATION ORGANISATION?**

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**HOW IMPORTANT IS INNOVATION IN A TELECOMMUNICATION  
ORGANISATION?**

## **ABSTRACT**

There is a growing urgency for innovation in the telecommunications sector due to continual changes caused by globalisation. Corporate entrepreneurship is a term used to describe organisations that are willing to pursue opportunities, initiate actions, and emphasise new, innovative products or services.

As firms grow, there is a tendency to become more bureaucratic with rigid processes resulting in slower decision-making – this is detrimental to innovation and restricts growth. There was a need to investigate to what extent this telecommunication firm was and still is innovative. . Also older and more experienced managers are set in their ways and fail to cultivate a sustainable culture of innovation.

The basic principle is that all working employees in the company must participate in development processes. The operational level is vital for the company's ability to change and adapt new methods and technology.

This research investigates the innovation knowledge and attitudes of employees of a telecommunications firm. Empirical data was collected by means of a questionnaire among 105 employees. A quantitative questionnaire and non- probability sampling was used. The primary objective of this study was to investigate innovation in the telecommunication organisation.

The main findings of this research indicated that the respondents were fairly knowledgeable with regard to the basic concepts of innovation and leadership. For this study the aim was on innovation and not leadership.

“A firm that fails to generate new knowledge will fail to exist”

**Keywords:** Corporate Entrepreneurship; Technology Innovation; Telecommunications

## **INTRODUCTION**

There is a growing urgency for innovation in the telecommunications sector due to continual changes caused by globalisation. Corporate entrepreneurship is a term used to describe organisations that are willing to pursue opportunities, initiate actions, and emphasize new, innovative products or services. Hence, corporate entrepreneurship plays an important role in the face of fierce competition in sectors such as telecommunications. “A firm that fails to generate new knowledge will fail to exist” (Pearlson & Saunders 2006). Organisations have started to view knowledge and innovation as its most strategic resources. Valuing the expertise and sharing of knowledge is seen as one of the characteristics of a knowledge-based organisation. Where knowledge creation is at the centre of an organisation, the bridge between working and innovation is learning (Itzkin, 2000).

The business environment is characterised by dynamic, unpredictable and ongoing change according to O'Regan, Ghobadian and Sims, (2006:252). This requires businesses to embrace innovation as an integral part of their business strategy. The impact of technological innovations on production and profitability involved several researches. Bankley, Scerri and Saloojee (2006:104) asked firms to subjectively answer a question on whether innovative activities had either a positive or negative impact on a range of production activities and overall profitability. The results showed that 38% of firms indicated that the innovative activities had a positive impact on profitability at the firm level and only 7% reported a negative impact.

Due to the dynamic nature of the telecommunications industry, it is imperative that organisations and their managers remain receptive to new ideas, approaches and attitudes. Rapid and cost-effective innovation is the primary source of competitive advantage in this industry, leaving organisations no alternative but to become innovative or cease to exist.

## **MAIN PROBLEM AND RESEARCH OBJECTIVE**

As firms grow, there is a tendency to become more bureaucratic with rigid processes resulting in slower decision-making – this is detrimental to innovation and restricts growth. There was a need to investigate to what extent this telecommunication firm was and still is innovative. Also older and more experienced managers are set in their ways and fail to cultivate a sustainable culture of innovation.

The basic principle is that all working employees in the company must participate in development processes. The operational level is vital for the company's ability to change and adapt new methods and technology. This study will focus on the employee's perception of the company's actual innovation performance, not theoretical.

The internal work processes regarding innovation are evaluated, changes made and through the period the company works with defining a development project for a new product or service.

### **Primary objectives**

The primary objective of this study was to investigate innovation in the telecommunication organisation.

### **Secondary objectives**

The following secondary objectives are identified in order to achieve the primary objective:

- \* to conduct a literature review which will assist in identify the various concepts associated with innovation and to describe the content.
- \* to modify an already existing questionnaire using scientific procedures.
- \* to conduct an empirical survey.
- \* to summarize, draw conclusions and provide recommendations based on the empirical results.

## **LITERATURE REVIEW**

By definition innovation consists of doing something new and so must overcome the inertia of the old, established and hitherto successful way of doing things (Baker and Hart, 2007). Innovation, defined broadly, includes both improvements in technology and better methods of doing things. It can be manifested in product changes, process changes, new approaches to marketing, new forms of distribution, and new conceptions of scope. Drucker (1993) saw innovation from management perspective as an application of knowledge to produce new information, understanding, and awareness. Innovation is also seen as a new product and process development which embraces the management of all activities in the process of new product development and market launch. New product development is the combination of steps/activities/decisions/goals etc. that, if performed well, will churn out the new products the company needs (Crawford & Di Benedetto, 2006).

Hurley & Hult (1998) introduced two constructs that constitute innovation resources:

- innovativeness, which reflects the openness to new ideas and is the aspect of Organisational culture, and
- ability to innovate, which indicates the capability of organisation to successfully

accepts and implement new ideas, processes or products.

Innovation is acknowledged as a major driving force in the economy. Innovation in an industrial context is in most surveys defined as “the introduction of new or substantially improved products (goods or services) in the market, *or* introduction of substantially improved processes within the company during the last years” as noted by Eurostat’s survey.

This distinction is important, because in many public discussions “innovation” is viewed as introduction of completely new products and services. Improvements, or “incremental innovation” is the daily innovation activity in most firms, and even if it goes on without much public notice, it is a widely held view that the cumulative impact of incremental innovations is just as great as (if not greater) than radical innovations to long term economic and social change. Nevertheless, innovation policy and public business development schemes are most commonly oriented against supporting radical innovations (Stabeck, 2005:2).

Incremental innovation is more or less viewed as “less valuable” in public innovation policy, and few support schemes have been developed to focus on these improvements, even if it is vital for the company’s ability to survive in competition. Innovation, both radical and incremental, is an interactive process where companies rely on information from and communication with different sources (market, suppliers, institutions etc.) and networks. There are, however, big differences in the performance regarding how the companies process the information and the ability to transform information to business ideas and commercial ventures. This is due to many factors, like:

- Communication within the company
- Managerial culture
- Entrepreneurial culture within the company
- Organisational skills
- Existence of information systems taking care of cross-department info
- Ability to and systems for accumulate learning
- Insufficient systems for project evaluation
- Competence and capacity to exploit external resources in internal development projects
- Financial capacity



These factors may be grouped in three main “competencies” if we in this context exclude the financial aspects:

- Formal and tacit knowledge that affect the ability to change production of goods and services and the exploitation of technology
- Managerial systems and leadership
- The workforce’s (incl. management) ability to interact with customers, suppliers, external networks and institutions (Malerba, 2005:50).

In a competitive business environment, it is obvious that organisations need to seek out new business ideas and opportunities, and then bring them to a profitable conclusion. However, research reveals that many large organisations face various difficulties in doing this (Bridge, O’Neill and Crombie, 1998). In order to become and remain **entrepreneurial**, organisations need to cultivate a culture of motivational synergy, which is best achieved by both intrinsic and extrinsic mechanisms (Eisenberger & Cameron, 1996).

Increasing intrinsic motivation by developing an individual’s sense of power and meaning related to tasks results in greater work satisfaction and in more innovative behaviour (Spreitzer, 1995). Innovation is also indirectly influenced by a number of extrinsic factors such as organisational systems, supervisory practices, reward systems and job design as these factors affect employee motivation (Block 1987; Conger 2000; Kanter 1983; Thomas & Velthouse, 1990). According to Fry (1993), there are four clusters of factors (barriers), namely (1) resistance to change; (2) the inherent nature of large organisations; (3) lack of entrepreneurial talent; and (4) inappropriate compensation methods. These factors help explain why large organisations have trouble becoming and staying innovative.

Hence, Groenewald (2009) in her study of the assessment of corporate entrepreneurship and the level of innovation of the South African Short-Term industry pointed out that many researches in the field of corporate entrepreneurship have not yet reached consensus on a common definition. In this study we will use the definition as cited by Sharma and Chrisman (1999:18) as cited in Groenewald (2009) would be adopted too. “Corporate Entrepreneurship is the process whereby an individual or a group of individuals, in association with the existing organisation, creates a new organisation or instigates renewal or innovation within the organisation. Groenewald (2009:28) using the Entrepreneurial Health Audit, concluded that respondents acknowledge that there are new products/service introductions but they themselves are not responsible for all the new products/service introductions. Thus she

highlighted that entrepreneurship and therefore innovation needed to be developed in all the employees in the organisation, not just a few. Groenewald (2009: 257) identified some of the following gaps: A few are mentioned below:

- The degree and frequency of entrepreneurship, and therefore the entrepreneurial intensity of the short –term insurance industry in South Africa is not high. This means that there needs to be training and development with regard to innovativeness, pro-activeness and risk taking.
- There is a very distinct difference between top and middle level management and the rest of his employees.

## **RESEARCH DESIGN AND METHODOLOGY**

A quantitative questionnaire and non-probability sampling was used. The questionnaire was developed by Hill (2003) using the „Entrepreneurial Intensity Index framework“ which is based on Tushman and Nadler’s Model (1997). It has a 5-point Likert scale to measure the intensity of corporate entrepreneurship in six observable metrics identified in Hill’s model (2003: 183) namely task, organisation structure, policies, people, leadership and culture. This aim of this study is to identify innovation tendencies in the telecommunications sector thus not all of the metrics of Hill’s model will be discussed.

The study surveyed a nonprobability sample of employees from a telecommunication organisation. A total of 105 employees completed the questionnaires, consisting of operational staff and management from various departments. The employees were informed that they will remain anonymous and were therefore more likely to respond freely and openly.

The sampling process for this research:

**Element:** A telecommunication organisation

**Sampling units:** Employees from the telecommunication organisation

**Extent:** Gauteng

The measuring instrument used in this study measures intrinsic and extrinsic mechanisms, the four clusters of barriers, and also identifies in which areas the telecommunication organisation is falling short and can therefore be improved.

No demographic factors of the respondents were collected.

The questionnaires were statistically processed by the Statistical Consultation Services of the University of Johannesburg who were used, to do the analysis. A statistical analysis package called SAS (Statistical Analysis System) was used to assess the associations among the chosen variables. The collected data was tabulated and presented to depict the employee's perspective of technological innovations in telecommunications. The research data was analysed using a descriptive analysis. Descriptive statistics are used to point out the measures of central tendency (mean, median, mode), measures of dispersion (variance, standard deviation, range, interquartile range). In this study two important measures were considered, the mean and standard deviations.

### **Reliability and validity of the measuring instrument**

The internal consistency of the test scores was statistically calculated. The researcher made use of Cronbach's coefficient alpha, as it is most useful when used to determine the internal consistency reliability of test scores which are in a Likert-type format (Struwig & Stead 2001:133). With regard to validity of the measuring instrument, it contains elements of theoretical knowledge regarding the various elements of personal financial management. This contributed to the content validity of the questionnaire. In order to further ensure the content validity of the questionnaire, an expert was asked to judge the appropriateness of the questions contained in the questionnaire.

## **FINDINGS AND CONCLUSIONS**

The presentation of results in the paper is based on the data analysis process which involved a thorough analysis of each and every question presented in the data collection instrument used (the questionnaire).

Task and entrepreneurship

Frequencies								
Statistics								
	N		Mean	Median	Mode	Std. Deviation	Minimum	Maximum
	Valid	Missing						
task_innov_index	156	0	42.74	43.00	44	2.209	28	47
intrap_employee_index	156	0	38.57	38.00	38	2.538	31	49
structural_flexibility_index	156	0	34.44	35.00	35	4.232	19	46
incent_policies_index	156	0	32.71	33.50	34	2.339	21	39
intrap_leader_index	156	0	39.31	39.00	39	3.652	23	45
intrap_culture_index	156	0	41.90	43.00	43	3.394	28	46

The following questions were identified under task and entrepreneurship

Task innovation was (Q1, Q2, Q3, Q4, Q5, Q6, Q7, Q8, Q9, and Q10).

Entrap\_employee\_index was (Q11, Q12, Q13, Q14, Q15, Q16, Q17, Q18, Q19, and Q20).

The following questions were identified under task and entrepreneurship

Question 1 to 10 seeks to identify respondents according to Task innovation. Question 11 to 20 sought to identify the entrepreneur employee index. The reason for asking these questions was to determine employee's awareness of technological advances as identified in the telecommunication organisation. It was clear that 81.9 percent agree that the organisation had a high rate of new services and product.

**Q1 Our organisation has a high rate of new service / product introductions.**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	1.0	1.0	1.0
	Agree	18	17.1	17.1	18.1
	Strongly agree	86	81.9	81.9	100.0
	Total	105	100.0	100.0	

Most of the respondents agreed on a high rate of innovation, being new services and products. Innovation incentive thus high.

**Q2 How does the number of new products introduced compare to that of your competitors?**

		Frequency	Percent	Valid Percent	
		Cumulative Percent			
Valid	Less than	4	3.8	3.8	3.8
	The same	27	25.7	25.7	29.5
	More than	27	25.7	25.7	55.2
	Many more than		47	44.8	44.8
					100.0
	Total	105	100.0	100.0	

The respondents answer was spread over” the same, more (54) and many more” 47. Innovation inconclusive.

**Q3 Our organisation has increased the number of services offered in the past two years.**

		Frequency	Percent	Valid Percent	
		Cumulative Percent			
Valid	Agree	87	82.9	82.9	82.9
	Strongly agree	18	17.1	17.1	100.0
	Total	105	100.0	100.0	

Respondents agreed on the increased number of products to the public. Innovation incentives are good.

**Q4 Our organisation is primarily influenced by the potential of untapped opportunity.**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	10	9.5	9.5	9.5
	Disagree	57	54.3	54.3	63.8
	Unsure	9	8.6	8.6	72.4
	Agree	25	23.8	23.8	96.2
	Strongly agree	4	3.8	3.8	100.0
	Total	105	100.0	100.0	

Interesting to see that most of the respondents disagreed with this statement.

**Q5 Customers are invited and encouraged to provide feedback to the organisation in order to get new ideas for products and services.**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Seldom	5	4.8	4.8	4.8
	Sometimes	14	13.3	13.5	18.3
	Often	78	74.3	75.0	93.3
	Always	7	6.7	6.7	100.0
	Total	104	99.0	100.0	
Missing	System	1	1.0		
Total		105	100.0		

This is encouraged to note that customers are invited to give feedback.

**Q6 In our organisation there is a strong relationship between the number of new ideas and the number of new ideas implemented.**

		Frequency	Percent	Valid Percent	
		Cumulative Percent			
Valid	Disagree	2	1.9	1.9	1.9
	Unsure	24	22.9	22.9	24.8
	Agree	60	57.1	57.1	81.9
	Strongly agree	19	18.1	18.1	100.0
	Total	105	100.0	100.0	

New ideas are therefore encouraged

**Q7 Our organisation is continually pursuing new opportunities.**

		Frequency	Percent	Valid Percent	
		Cumulative Percent			
Valid	Never	3	2.9	2.9	2.9
	Seldom	1	1.0	1.0	3.8
	Sometimes	1	1.0	1.0	4.8
	Often	4	3.8	3.8	8.6
	Always	96	91.4	91.4	100.0
	Total	105	100.0	100.0	

The impact of innovation is seen here as always.

**Q8 Our organisation places a strong emphasis on new and innovative products and services.**

		Frequency	Percent	Valid Percent	
		Cumulative Percent			
Valid	Sometimes	1	1.0	1.0	1.0
	Often	6	5.7	5.7	6.7
	Always	98	93.3	93.3	100.0
	Total	105	100.0	100.0	

As with question 7 there is a strong emphasis on innovation in this sector.

**Q9 Employees are continually being encouraged to do things in new and different ways.**

		Frequency	Percent	Valid Percent	
Valid	Strongly disagree	1	1.0	1.0	1.0
	Agree	22	21.0	21.0	21.9
	Strongly agree	82	78.1	78.1	100.0
	Total	105	100.0	100.0	

Respondents strongly agreed that employees are encouraged to be part of innovational planning.

**Q10 Our organisation places a strong emphasis on continuous improvements**

		Frequency	Percent	Valid Percent	
Valid	Strongly disagree	1	1.0	1.0	1.0
	Agree	13	12.4	12.4	13.3
	Strongly agree	91	86.7	86.7	100.0
	Total	105	100.0	100.0	

As seen from the response there is focus on improvement of products



**Q11 I look for new and innovative ways to improve the way we do things.**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Seldom	1	1.0	1.0	1.0
	Sometimes	78	74.3	74.3	75.2
	Often	17	16.2	16.2	91.4
	Always	9	8.6	8.6	100.0
	Total	105	100.0	100.0	

The respondents own innovational is sadly lacking as seen from the sometime response

**Q12 I am excited and full of enthusiasm when new opportunities arise.**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Seldom	1	1.0	1.0	1.0
	Sometimes	1	1.0	1.0	1.9
	Often	76	72.4	72.4	74.3
	Always	27	25.7	25.7	100.0
	Total	105	100.0	100.0	

Here the respondents are part of the innovative ideas – reactive and not proactive

**Q 13 The organisation sets and regularly evaluates goals related to innovative, risky and proactive behaviour.**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	2	1.9	1.9	1.9
	Disagree	4	3.8	3.8	5.7
	Unsure	16	15.2	15.2	21.0
	Agree	71	67.6	67.6	88.6
	Strongly agree	12	11.4	11.4	100.0
	Total	105	100.0	100.0	

The organisation set goals for achieving proactive behaviour – will lead to more employees being part.

**Q14 The organisation uses a broad range of evaluation criteria when considering support for new initiatives.**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	2	1.9	1.9	1.9
	Unsure	14	13.3	13.3	15.2
	Agree	84	80.0	80.0	95.2
	Strongly agree	5	4.8	4.8	100.0
	Total	105	100.0	100.0	

Respondents agreed on the evaluation criteria

**Q15 The organisation has systems that offer both financial and non-financial rewards for entrepreneurial behaviour.**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	1.0	1.0	1.0
	Disagree	5	4.8	4.8	5.8
	Unsure	89	84.8	85.6	91.3
	Agree	9	8.6	8.7	100.0
	Total	104	99.0	100.0	
Missing	System	1	1.0		
Total		105	100.0		

Interesting to note that most of the respondents were unsure of this – the researchers found this intriguing.

**16 Our organisation has a widely held belief that innovation is an absolute necessity for the organisation's future.**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Sometimes	3	2.9	2.9	2.9
	Agree	86	81.9	82.7	85.6
	Strongly agree	15	14.3	14.4	100.0
	Total	104	99.0	100.0	
Missing	System	1	1.0		
Total		105	100.0		

Respondents only agree on this statement – this should have been strongly agreed

**Q17 We are encouraged to continually look at things in new ways.**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	2	1.9	1.9	1.9
	Sometimes	9	8.6	8.6	10.5
	Agree	88	83.8	83.8	94.3
	Strongly agree	6	5.7	5.7	100.0
	Total	105	100.0	100.0	

As with question 17 there should be more emphasis on the strongly agreed.

**Q18 There is an extensive employee orientation program for new employees to ensure employees share the corporate vision and purpose.**

		Frequency	Percent	Valid Percent	
		Cumulative Percent			
Valid	Strongly disagree	1	1.0	1.0	1.0
	Disagree	2	1.9	1.9	2.9
	Sometime	10	9.5	9.6	12.5
	Agree	68	64.8	65.4	77.9
	Strongly agree	23	21.9	22.1	100.0
	Total	104	99.0	100.0	
Missing	System	1	1.0		
Total		105	100.0		

Employees are encouraged to share their ideas.

**Q19 The organisation encourages individuals that have different views to those of the company to stimulate innovation.**

		Frequency	Percent	Valid Percent	
		Cumulative Percent			
Valid	Never	1	1.0	1.0	1.0
	Seldom	6	5.7	5.7	6.7
	Sometimes	19	18.1	18.1	24.8
	Often	79	75.2	75.2	100.0
	Total	105	100.0	100.0	

Again from management there are incentives to induce innovation from the employees

**Q20 Our organisation has a clear-cut vision to ensure an innovative company.**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	3	2.9	2.9	2.9
	Sometime	6	5.7	5.7	8.6
	Agree	73	69.5	69.5	78.1
	Strongly agree	23	21.9	21.9	100.0
	Total	105	100.0	100.0	

Respondents were aware of the vision for innovation

In conclusion it was found that the respondents saw the organisation as innovative and proactive. However as employees they did not see themselves as innovative even though the organisation provided the necessary incentives. The respondents were fully aware of management support, the availability of resources, which led to the answer of not being sure of financial rewards as a contradiction. The respondents are also positive towards the importance of individual action and the impact that this can have on innovation. This means that they have a positive attitude towards showing entrepreneurial-concerned actions, but they need to be encouraged to exhibit the necessary behaviour. Encouraging consumers to act on this knowledge is an important decision from the organisation.

## **Conclusion / Managerial Implications**

The results provide the managers of the telecommunication organisation with the following information:

- an overall view of the organisation's innovation ability;
- a table of results that will enable the organisation to benchmark itself against competitor firms;
- a list of specific areas that require change or modification in order to become more innovative.
- the perceptions of the employees.

Top management can focus on strategic renewal, strategy reformulation, re-organisation and organisational change which can lead to new combinations of resources, resulting in competitive advantage. The above information could assist management with decision-making when taking corrective action to address specific areas for improvement.

The main targets in the telecommunication organisation with an innovation-programme can be to:

- Contribute to a more structured innovation activity in the organisation by focusing on the internal processes that determine enterprising attitudes and how possible projects are selected and evaluated.
- Remove obvious and agreed blocks that hamper innovation (short term results).
- Define a new innovative case (development project) for the organisation, establish a development (action oriented) plan and a financial strategy for the implementation.
  
- Establish strategies for bridging the gap between established skills and needed skills to complete an innovation project.
- Establish relations with external sources of knowledge linked to the case, and to regional and local innovation environments and networks.

Management should have a commitment to innovate (willingly or enforced by others), and resources to carry through the programme according to the intentions. The organisation should also have a management that is open minded and allow employees to come up with ideas and criticism. Very often organisational issues are discussed, and solutions very often

include aspects linked to managerial practise. If these issues aren't dealt with, the participation is a waste of time and can be more de-motivating than motivating.

Innovation is in most cases a teamwork, many competences and resources are needed to make an idea a commercial success. A sustainable regional policy should therefore include an innovation policy that can enhance the innovative capabilities of the organisation through innovative programmes like brainstorming.

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# Image building Role of Social Media in the retail Sector of South Africa

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## **ABSTRACT**

With the abundance of social networking sites available, a considerable number of people are spending many hours on the internet, amongst many other activities to obtain information for purchasing products and services. This study will examine how social media can be effectively utilised by retailers to reach and retain consumers in the youth market. The results of this study will hopefully guide retail businesses to promote themselves to their potential customers through social media channels of communication. This study will be conducted by interviewing a convenience sample of at least 100 students at the University of KwaZulu-Natal. Initially a focus group discussion will be held to gather information to enable the researcher to construct the research instrument. The research objectives are to establish; *inter alia* whether the youth market uses social networking sites to elicit information about retailers from other consumers, what type of information they seek, what their likes and dislikes are about retailers' pages in the social media etc. Although this is a study with a limited scope and using only a small convenience sample, an attempt will still be made to provide broad guidelines to retailers in order for them to make more effective use of social media to promote their businesses to the youth market without alienating other market segments.

# **Innovation through the use of ICTs: To Leap or not to Leap**

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Keywords: ICTS, National development, Innovation, GSM, DECT

# **Innovation through the use of ICTs: To Leap or not to Leap**

## **ABSTRACT**

ICTs have long been used to foster innovation in organisations and society. There is a commonly held perception that in order to innovate through the use of ICTs, the newest and most recent technology must be employed. “Out with the old and in with the new” has been a common mantra. While leapfrogging to the latest technologies has been identified as a feasible strategy for achieving innovation, it is not a panacea for all circumstances. Therefore the purpose of this paper is to demonstrate that innovation with ICTs is feasible, even when older, more established technologies are employed. Digital Enhanced Cordless Technology (DECT) and Global System for Mobile Communications (GSM) technologies are used as examples. DECT technology performs a function similar to GSM. DECT technology can be used innovatively for cost-effective economic development and resource management. It is very cheap and is license-free in some countries. It is a technology that India and some other developing countries have taken advantage of to satisfy their rural connectivity needs. Unfortunately, however, many developing countries in Africa have abandoned the DECT technology in favour of GSM, which provides for sophisticated multimedia services. The affordability of such services hampers their diffusion in rural areas where the primary need is for basic services rather than enhanced, nice-to-have features. Investments in inappropriate ICTs render them both ineffective and a significant waste of resources for many of Africa’s least developed countries. These and other findings are discussed.

## **1.0 INTRODUCTION**

Many papers have described innovation as something totally new in society, that is, a complex process of introducing novel ideas into use or practice and usually considered only if it is commercially successful (Bijker and Law, 1997, Merritt Roe Smith, et al). Consequently, many researchers have argued or perceived that in order to innovate through the use of ICTs, the newest and most recent technology must be employed (W. Edward Steinmueller, 2001). This situation has been termed technological leapfrogging, if adequate technological adoption process is not following. Technological leapfrogging is described as the use or implementation of a new and up-to-date ICT in an application area in which previous versions of that technology had not been deployed (Robert Davision et al, 2000). This is believed to be a way of accelerating development and promoting economic growth. For instance, telecommunication leapfrogging has been expressed as a key of diffusing ICT to increase economic growth and improve competitiveness (Christiano Antonelli, 1991).

Different patterns of leapfrogging exist; the first pattern is called the *path-creating catching-up*. This pattern is reportedly practiced in Korea by some public-private collaboration, where the involved technology is more adaptable and the risk is high with bigger capital requirements. The second pattern is called *the path-skipping catching up*. This is reported as the practice by private initiatives in industries where innovations are less frequent and the innovation path is more conventional (Keun Lee and Chaisung Lim, 2001). Unfortunately, the appropriate catching up process is missed in both cases and the consequences of it may be disastrous to organisations that practice them. Though it was mentioned that some Korean industries did not follow appropriate leapfrogging process and they have achieved a remarkable success and continue to have good prospects for the future, others are facing serious difficulties after a certain amount of leapfrogging. The factor that is responsible for their failure or success differs among industries that leap because of different technology and market conditions (Keun Lee and Chaisung Lim 2001).

The cardinal and motivating factor for technology leapfrogging has been the increasing tendency toward globalisation, development of information and communication technology (ICT). Indeed, this has revolutionised most aspect of our lives in term of economic activities, education, entertainment, communication and travel. In particular, developing countries have benefited from this globalization because they cannot afford to be isolated from the emerging global information age. However, their participations in some of these new technologies are not credible. The adoption and implementation process of some of the new technologies have been marred with incompatibilities, lack of infrastructure and human resources to acquire and utilise the technology (Robert Davision et al., 2000). These have led to a huge waste of resources in the ICT sector. Nonetheless, some developing countries have been catching up with advanced countries by incorporating and adapting the more or less obsolete technology of the advanced countries which is consistent with product life cycle theory. This kind of catching-up process is known as *path-following* and it is normal (Keun Lee and Chaisung Lim, 2001).

Most developing countries are vulnerable to leap when they casually observe the benefits which new technology brings to the industrialised nations. Such a haste to acquire the same technology is based on blind belief and is undesirable (Luc Soete, 1985). Though these countries may benefit from such an opportunity in a short term, precautions must be in place to manage the scarce resources and to assess whether a decision to leap will eventually lead to a long term success. There are some features of ICTs that have been considered as an opportunity for developing

countries to leap if some prerequisites are met (Keun Lee and Chaisung Lim, 2001). However, such prerequisites have been identified as difficult issues for developing countries in achieving technological leapfrogging. In the conservative view, developing countries passively adopt technology as standard products that have been developed in developed countries. Interestingly, these standards are also deployed in developing countries where environmental and cultural differences are significant. Moreover, new technologies constantly require modifications if they are to be applied successfully to a new environment. This kind of modifications requires a technical proficiency and this may be a constraint and contradiction to the level of development in developing nations (W.Edward Steinmueller, 2001).

Hence, considering these concepts, the key question to be addressed is: if it is feasible to innovative with ICTs, when older, more established technologies are employed? Also, if it is innovative to jump to the most recent version of technology in developing nations especially when the older versions are yet to be exploited? We argue that although it is a feasible strategy to leap to the latest technologies as hinted but it is not a solution for all circumstances. In other words, it is good to respond proactively to changing technology or economic conditions but it is equally good to innovative with the adoption, diffusion and application of those imported technologies. However, there is nothing as good as self reliability. It has been observed that organisations or countries that are leapfrogging skip some vital stages and do not follow the proper path of technological development of the advanced countries. In a nutshell, if it is innovative to upgrade the older versions of a technology to the new ones in industrialised nations, it might not be an innovation for developing nations to embark on such development. The purpose of this paper is to demonstrate the feasibility of being innovative with ICTs, even when older, more established technologies are employed. This is achieved through a survey of Digital Enhanced Cordless Technology (DECT) adoption and diffusion across the globe. Furthermore, this study seeks to investigate the implications and consequences of technology acceptance by examining the relationship between the use of Digitally Enhanced Cordless Technology (DECT) and Global System for Mobile Communications (GSM).

In this work, an illustrative case study method is used to investigate DECT and GSM technology (Yin, 1984 & 1994). This provides a strategy that focuses on the understanding of the dynamics present within ICT domain. The data collection includes observations, extensive use of literatures and archives (Eisenhardt, 1989). A critical examination approach is used to study the technology diffusion and innovation of DECT for the critique and improvement of ICT practice and use. This

approach is suitable to challenge the discourse surrounding socio-economic change which assumes that only newest technology can lead to innovation (Howcroft and Trauth, 2004). Thus it seeks to disrupt the tradition and practice rather than reproduce the status quo.

The remainder of this paper is as follows: In the next Section, brief innovative theories are explained. Section three describes the technical features of DECT technology. The major characteristics of DECT system were identified. This Section concludes by identifying some major differences between DECT and GSM. The discussion in Section four demonstrates that the study of innovation in this work is unique. Conclusions are drawn in Section five.

## 2.0 INNOVATION THEORIES

Recently, four theories that could guide innovation development have been presented (Rogers, 1995). They are:

(i) *Innovation Decision Process theory* – this is users or adopters based theory and recommend the following for a potential adopter / user of a technology:

<b>Knowledge</b>	First learn about the innovation
<b>Persuasion</b>	Persuaded of the value of innovation
<b>Decision</b>	Decide to adopt
<b>Implementation</b>	Implement innovation
<b>Confirmation</b>	Reaffirm or reject the decision

*Table 1: Technology Use / Adoption Process*

(ii) *Individual Innovativeness theory* – this theory recommend an individuals who are innovative to adopt an innovation earlier in the scale of acceptance or diffusion process.

(iii) *Rate of Adoption theory* – this theory deals with the relationship between diffusion and innovation.

(iv) *Perceived Attributes theory* – this theory identifies five attributes by which an innovation is examined. They are (Elena Karahanna, Detmar, 999):

- | Testability
- | Observability
- | Relative advantage
- | Complexity
- | Compatibility

### **3.0 DESCRIPTION OF DECT TECHNOLOGY**

Digital Enhanced Cordless Telecommunications (DECT) as show in Figure 1 is standardised by European Telecommunications Standards Institute (ETSI) for digital portable phones (H. Van der Hoek, 1993; ETSI, 1992). It is a digital wireless technology which originated in Europe, but now being adopted in many parts of the world for cordless telephones, wireless offices and wireless telephone lines. It has been commonly referred to as the ‘younger brother’ of GSM (Walter H. W. Tuttlebee, 1992). DECT was intentionally developed to be economically feasible in developing countries (D. E. Fague, B. Madsen, C. Karmel, and A. Dao, 1994). DECT has demonstrated its competitive ability in the inexpensive systems market and has the potential for the further reduction of cost (P. H. G. van de Berg and F. B. Brouwer, 1994). Its main technical innovation, which is dynamic channel choice, has proved to be very reliable. Given the huge latent demand for modern telephones in the developing world, together with the liberalisation of telecommunications service provision in the developed world, all the major telecommunications manufacturers began to develop products for wireless local loop. As a result, many DECT WLL trials were undertaken in countries all around the world, especially in the mid-1990’s (G. Schultes, P. Kreuzgruber, and A.L. Scholtz, 1993; E. Metaxakis, A. Tzimas, and G. Kalivas, 1998). More than two million wireless telephone lines using DECT technology was deployed in 1990. Also, about one third of wireless local loop lines ordered globally during 1998/99 used DECT technology, making DECT the leading technology used for wireless local loop across the world (DECTweb).

#### **3.1 Features of DECT**

DECT technology includes various advanced features, such as wireless broadband data-transfer and international roaming. It has been qualifies as a 3G system (V. Werbus, A. Veloso, and A. Villanueva, 1993). Furthermore, DECT technology is suitable for the two-way transfer of voice, data and video information. It is capable of internetworking with other networks such as PSTN, ISDN, GSM and IEEE LANs. Typically, a DECT feature includes the ability to make internal calls

between handsets, multiple handsets to one base station and one phone line socket, interference-free wireless operation to around 100 meters outdoors and it is generally immune to interference from other technology such as Wi-Fi. Many DECT systems also include additional features such as caller identity (R. J. Mulder, 1991; Kevin J. Saldanha, 2000).

### 3.2 Technical description of DECT

DECT access techniques includes frequency division multiple access (FDMA), time division duplex (TDD) and time division multiple access (TDMA). The original DECT carrier frequency band is (1880-1900 MHz) with 1.728MHz, carrying 12 full duplex channels and is used in all countries in Europe. This frequency band is also being used in other countries such as Asia, Australia, and South America. The DECT system technical specifications are summarised in Table 1 (Kevin J. Saldanha, 2000; National Semiconductor, 1993).

Parameter	Specifications
Frequency band	1880 – 1900 MHz
Channel Access	FDMA / TDMA /TDD
Number of Carriers	10
Channel Spacing	1.728 MHz
Number of Timeslot /Carrier	24 (12 duplex)
Modulation Principle	GFSK with BT = 0.5
Modulation Data Rate	1.152 Mbit/sec
Peak Transmit Power	< 250 mW (24 dBm)
Average Transmit Power	10 mW (10 dBm)
Speech Coding	32 kbit/s ADPCM
Frame Length	10 ms
Nominal FM Deviation	288 kHz
Channel Assignment Method	Dynamic Channel Allocation

*Table 2: Digital Enhanced Cordless Telecommunications Specifications*



### 3.3 Similarity and Difference between DECT and GSM

GSM are mobile telephony that enables users to operate with their phone while moving around, either at low or high speeds, without interruption in conversations. The DECT cordless telephony is similar in operation to mobile phone but limited to coverage area and speed. Its design orientation is to be used in indoor office environments such as hospitals, schools and government offices. Another major difference between DECT and GSM is that the former is a radio access system that internetworks with local and/or public networks providing access to these networks while the later is a complete public network. (Mouly, Michel & Pautet, Marie-Bernadette, 1992; Walter H. W., 1997b). However, the DECT and GSM technology appearances and functionalities are very similar as shown in Figure 1.



*Figure 1: Digital Enhanced Cordless Telecommunications (DECT)*

### 4.0 DEMONSTRATING INNOVATION THROUGH ADOPTION AND USE OF DECT TECHNOLOGY

This Section explores DECT usage and practice around the globe, including its applications, spectrum allocation policies, the impacts of DECT usage in each continent and how each country innovates through the use of DECT technology. This survey of the use and practice of DECT technology, are demonstrated using archives and academic papers (Seán Ó Siochrú and Bruce Girard, 2005; DECTweb.com; WTIS Ltd / Information & Services Ltd).

#### 4.1 North America, Central & South America

In the United States, the Federal Communications Commission, in 2005, customised the existing DECT technology by changing the channelisation and licensing costs to a close band (1920-1930 MHz, or 1.9 GHz) and this was called Unlicensed Personal Communications Services (UPCS), which allows DECT devices to be sold in the U.S. with minimal charges. This approach has helped the USA government to solve their domestic communication needs (DECTweb; Mori, Yasuaki & Magaña, Javier, 1997). DECT in central and South America has been administered through The Inter-American Telecommunication Commission, CITELE. This is an entity of the Organisation of American States, which its purpose is to use all the means at its disposal to facilitate and further the development of telecommunications in the Americas and to contribute to the development of the region. DECT usage is allowed in many countries, administered by CITELE, within the frequency band 1910-1930 MHz allocated. DECT technology has been explored in Argentina, Bahamas, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Ecuador, Honduras, Mexico, Panama, Paraguay, Peru, and Uruguay. In these countries, Colombia is reportedly leading the deployment of DECT WLL.

## **4.2 Australia & Asia**

In India, there is a great interest in DECT technology, especially when the government realized that DECT wireless local loop solutions could assist significantly in fulfilling their stated policy of deploying several million additional telephone lines within short time. Eventually the local companies have responded to this development by taking innovation to developed indigenous technology that is similar to the ETSI DECT standard for their own local need. In order to fully realise this dream, India's Centre for Development of Telecommunications (C-DOT), and National Semiconductor, have signed a memorandum of understanding relating to collaboration in the development of DECT for the Indian WLL market. A lot of innovations were later developed using various India DECT Forum to address the challenges that came-up. Various projects were embarked upon. For instance corDECT was a project undertaken at IIT Chennai to develop DECT technology. This project was backed by Analog Devices Inc, USA, and an Indian Shvam Telecom Ltd. The corDECT equipment was validated and subsequently licensed to manufacturers in India, China, Brazil and France. As in India, wireless solutions are recognised for cost-effective mechanisms to rapidly roll out additional telephone lines in a country desperately in need of this. Other countries in this region that have innovated through the use of DECT include Hong Kong, Indonesia, New Zealand, Philippines, and Sri Lanka.

## **4.3 Europe**

In Europe, Germany has emerged as the leading market for DECT products. In 1998, DECT cordless telephones have captured 80% of the market. In the same year, DECT products have captured 60% of the market in France. In Italy, at the start of 1998 the existing DECT was customized for a commercial application called Cordless Terminal Mobility (CTM), Branded “FIDO” and was launched in Italy. CTM is a public access service that is based on DECT. It is used in city centres to access public DECT base stations. Through innovation, CPM was later improved upon, for instance, if a call is directed to home and no one answers the call, the system allows the call to be automatically re-routed through the public network to the recipient of the call or it goes to the voice mailbox in the network. This system also developed to support an intercom capability between the public cordless phone and the home wired telephone. Other European countries that embrace DECT technology includes: Denmark, Hungary, Netherlands, Poland, Portugal, Russia, Spain, Sweden, Turkey, and United Kingdom.

#### **4.4 Africa**

South Africa has invested in DECT technology using 1880-1900Mhz band. It is reported that the DECT WLL deployment by Telkom South Africa has been widely acknowledged as a major contributor to both local job creation and training of the workforce in the country. It was also recognised as a breakthrough for providing telephone communications to communities that previously lack such facilities. Egypt Telcom had aimed to increase their country's telephone capacity and has voted for DECT WLL systems as the solution to the current communication problems.

#### **5.0 DISCUSSIONS AND CONCLUSIONS**

DECT technology, which has been considered as less expensive technology and superior technology for small town and rural areas, is discussed. It has been identified that this technology is not only useful in rural areas but also in urban areas because of its good and interference free service provisions. Consequently, many countries have explored DECT technology to satisfy their rural and urban need. This work has illustrated innovations that have been developed through the use of DECT technology across the globe. The USA for instance ensured that the DECT technology is free in the first adoption while India developed an innovation policy concerning the use of DECT. As a result, indigenous DECT was developed in India and this is called CorDECT. The benefits of this type of innovative proprietary based technologies are summarised in the table below.

<b>Profitability</b>	It is viable at lower subscriber densities due to low initial investment cost
<b>Modularity</b>	It is scaled seamlessly as the consumer demand grows and meets initial network requirement costs very efficiently.
<b>Flexibility</b>	It ensures coverage in dispersed areas and can be deployed in urban, rural, suburban areas with cost effectiveness.
<b>Reliability</b>	It ensures network quality and it helps to minimise operational losses and downtime.

*Table 3: Indian Innovative Proprietary based Technological Benefits*

Despite all these benefits, which have been proven appropriate for less developed countries, it has been discovered that many developing countries especially African countries are yet to appreciate the service of very DECT technology. Instead, they have been leaping to the newest technology without considering the impacts of such technology on national development. Moreover, DECT has been described as a complete consumer mobile communications targeting the poor masses, while the GSM is designed for professional users who are prepared to pay for higher services. Unfortunately, many developing countries and some organisations have been paying exorbitantly through the use of GSM what the DECT technology will provide better at a cheaper rate. Such a leap into the new technology, without proper catching-up processes, is not innovative and unacceptable in adoption process and practice.

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INTERRELATIONSHIPS AND SIMILARITIES BETWEEN HUMAN  
RESOURCE MANAGEMENT AND KNOWLEDGE MANAGEMENT

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**Abstract**

Human Resource Management (HRM) and Knowledge Management (KM) have some interrelationships with each others. Although there may be no one single definition, but HRM is defined as the management of an organization staff in an efficient and effective way. On the other hand, KM is defined as developing, sharing and using the knowledge of human resources to gain benefits within the boundaries of an organization. Therefore, it seems that one thing is common in both definitions: the human resources.

As such an element of inherent dependency between HRM and KM exist. In fact, human capital is the most valuable resource in an organization and knowledge is the most precious asset that human resources own. Hence these two areas – HRM and KM – are closely interrelated.

This study systematically and consistently tries to shed light on the interrelationships between these two apparently different but in fact interconnected approaches. The ultimate goal is to reach to a more consistent and integrated approach to achieve organizational goals and objectives.

### **Key words**

Human Resource Management and Knowledge Management

### **Introduction**

Importance of the knowledge is something apparently clear in today organizations. Topics like HRM, KM, management of conceptual capitals, management of information and other similar topics all try to focus on the increasing role of the knowledge in modern organizations (Davenport & Prusak, 2000). It feels that in this economic era with the ever changing business environment a more consistent approach is required. This approach might combine and bring together elements of all the above approaches so that the organizational objectives can be achieved in a more facilitated manner. It has been proofed that the process of innovation will be facilitated if KM and HRM are integrated with each other (Scarborough, 2003). In another research it has been emphasized that the KM must focus on the human being and that the KM is being influenced by HRM (Gloet & Berrell, 2003). Putting this in

another way, it simply says KM is the more advanced form of HRM (Yahya & Goh, 2002). The interdependency and close relationship between HRM and KM has been researched and addressed in some of the research articles. The process of HRM embraces education, decision making, performance evaluation and rewarding and incentives. KM consists of knowledge acquisition, knowledge documentation, knowledge transferring, knowledge creation and knowledge application. Statistical results show that the approach of a knowledge oriented organization is different from a non-knowledge organization (Tomlinson, 1999). Hence the role of HRM in a knowledge based organization is also different.

### **Human Resource Management**

HRM was become renowned in 1980s. Its definition seems to some extent difficult. Usually HRM is defined as the personnel management of an organization. Armstrong defines HRM as the strategic management of personnel which focuses on staff acquisition and motivation (Armstrong, 2003). HRM can be looked upon in two different ways: as the traditional staff management in adjusting the industrial relations and recruitment within the company's resources framework; or as one important part of the strategic management of organization.

The aim of HRM is to make policies and initiatives required by management to conduct parts of their duties. These are related to the personnel activities particularly in finding fresh recruits, education, performance evaluation, rewarding and creating a fair and reasonable environment for the company's staff. In a nutshell, these policies and initiatives encompass the followings:

- Job analysis (determining the nature of each personnel job)

- HRM planning and finding potential recruits
- Qualified recruits selection
- Fresh recruits justification and education
- Wage management (personnel reimbursement)
- Motivation and benefits plans
- Performance monitoring
- Personnel relations (interview, consultation and disciplinary conduction)
- Human resource development and education
- Making human resource commitment towards organization

A manager should also be aware of the followings:

- Equal opportunity and positive action
- Staff safety, hygiene and health
- Complaints scrutiny and having fair working relations

One of the best definitions so far provided for HRM is a summary of various definitions which assigns 4 meanings to HRM. These are as below:

- First, HRM is the same personnel management which covers things like staff and relationships management.
- Second definition goes back to the application of specific techniques for staff management and in an integrated approach. In this definition HRM is a consistent application of policies and methods like selection, performance evaluation, rewarding and education to promote organizational performance.

- The third definition emphasizes on the importance of a business oriented approach and an integrated business in HRM. Based on this definition the method an organization chooses to manage its workforce should be in line with its strategies.
- The fourth definition puts a step forward. In addition to the importance of consistency with strategies, it emphasizes on the application of HRM techniques and pursuit of the employees commitment development to achieve required results.

In another research a brief categorization of various resources which have been classified by the human resources experts has been provided and their dependency with the penetration capacity in the nature of personnel has been shown (Miles, Snow, Meyer, & Henry J. Coleman, 1978). This concept is classified in four categories:

1. HRM is no more than renaming personnel performance and differentiates between traditional controls methods with personnel management.
2. HRM provides a combination of personnel management and employer / employee relations and helps management in pursuing managerial orders.
3. HRM assigns resources on the basis of relations among employees. Furthermore it combines various factors and resources together such as development roles for employees and costs reduction.
4. HRM gives a perspective of some management strategies for developing trade policies.

In Comparing HRM with traditional personnel management, Torrington and Hall consider the personnel management as the “point of pressure” for guiding

personnel (Torrington & Hall, 1995). Based on this approach finding and educating personnel, assigning them to the working teams, management predictions, management verification and employees satisfaction are the working requirements. Staffs that start to work in an organization are recognized as flexible resources as opposed to other resources like raw materials. On the other hand HRM has been recognized as the point of “resource centre” which exactly focus on the management requirement related to the human relations (not just the employees’ requirements) and its development and extension.

One of the most important things in HRM is considering employees and their relations as resources. This could be viewed either as positive or negative. The negative aspect is that the resources are usually regarded as cost. Positive aspect focuses on resources as valuable and necessary things for organization which allow its differentiation.

Companies are able to create human capital competitive advantage through attract and maintain outstanding people. Here there are two points to remember: first, HRM is not solely managing the people themselves, but it is managing the people personal and individual specifications (organizational, group wide) which are regarded as resources and create organizational advantage. Second, human resources not only attracted through recruitment process but also they will be enhanced and treated through organizational internal investment. Another important and yet related topic relevant to this concept is the HRM structure and its evolvement. People are being assessed throughout their competency, knowledge, knowledge evaluation, compatibility, assignment to networks and experiences. Here knowledge is more prominent. Peter drucker 1990 believes that the main resource of economy is knowledge not the long term capital, natural

resources or the job. In one research on the ICT sector in Ireland it was revealed that nearly two-third of the organizational value is devoted to the intellectual capitals and more than half of this capital is created by direct work of people, their thinking and making relations (O'Regan & others, 2005).

### **Knowledge management**

In 21<sup>st</sup> century, KM has been converted to one necessity for organization although it was in place since 1970s. Taking into account the importance of knowledge in enhancing organizational capability and competition, more especially in this era of information and communication, justifies essentiality for more attention to knowledge management. KM is not an individual process but it covers all procedures, sections and parts of an organization and even the external communication. Hence, to implement KM a group of experts in various disciplines are required. Information and knowledge are the main ingredients of KM and as managerial processes are related to production, distribution, application and reproduction of knowledge, the book keepers and information distributors have a prominent role in KM groups in an organization.

### **Knowledge Management defined**

Defining KM is difficult as different approaches and scholars may define it in different ways. KM embraces those policies and processes which enable an organization to produce and flow the knowledge in order to create and meet organization, customers and users needs (Halloran, 2004). KM is a

comprehensive process which considers identification, organizing, transferring and correct use of internal information and experiences. Today, knowledge is the most important asset of an organization (Prusak, 1996). Thus KM regarded as the challenge of discovering personal wisdoms and its conversion to an information item so that it can be saved in data bases, exchanged with the others and used in daily applications.

KM is an important subject as it relates to the most prominent capital of an organization i.e. intellectual capitals. KM creates value for organization by converting human capitals to structured intellectual assets. KM needs wisdom and efficient leadership. Organizational culture which leans on innovation and creativity is the driver of KM. To develop KM in an organization a range of changes with interaction and/or reinstatement of wisdom shall be systematically conducted and encouraged.

KM has been defined in the Information Week magazine as:

The concept of KM is to convert information into an applicable knowledge so that this knowledge is easily accessible and usable by others.

The KM activities embrace the following three titles:

Knowledge process, knowledge dimension, respect to the customs and knowledge. KM is the knowledge oriented asset. Experimental investigations show KM as the process of influencing and determining employees skills and expertise with the information technology support.

In another definition, KM is defined as the process of knowledge creation, record, categorization, distribution and application (Wiig, 1999). The USA centre for



productivity and quality defines KM as strategies and processes for identification, capture and knowledge penetration. Although there are varied definitions but a consensus exist that KM is the process of knowledge penetration as a tool for achievement innovation in process and products / services and effective decision making and organizational adaptation to the market. If KM and the organization KM system are being combined to each other a more comprehensive definition may be achieved. The organizational KM system is a system that increases the organizational learning by knowledge exchange facilitation (hidden and apparent) and sharing.

In general, there are two different approaches in KM:

- 1) The concentrated approach to KM and decision making
- 2) The non-concentrated approach to KM

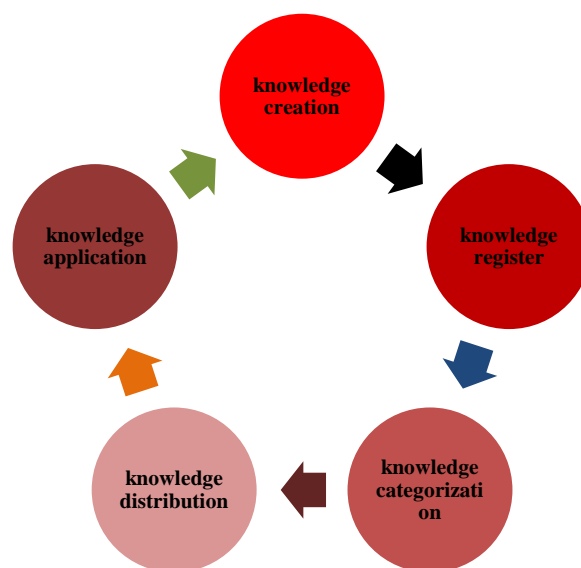
### **The concept of Knowledge Management**

KM consists of a wide spectrum of activities which are applied for management, exchange, creation or enhancement of intellectual capitals. KM is the smart design of processes, tools, structures, etc. with the aim of increase and renovation, sharing or improvement which is emerged in different three elements of intellectual capital i.e. structural, social and human. KM is the process that helps organizations to identify, select, organize and publicize important information and skills which are recognized as the organizational memory. This enables the organization managers to effectively and efficiently

solve the problems of learning, strategic planning and dynamic decision makings. In a precise approach, KM is development, sharing and application of knowledge for acquisition of interests within the organizational scope. Elements like selection, recruitment, development and education, management performance, salary, incentives and rewards, and the learning culture are necessary for KM realization. Retrieval of employees with capability and knowledge which exist neither in organization nor captured by them is one of the elements which contributes in KM growth and usage. The comprehensiveness of KM especially in management philosophy and tools is increasing speedily. Pertaining to the growth rate of KM, it is suffice to say that in the years 2002, 1998 and 1995 nearly 155, 45 and 835 journal articles relevant to the KM and its basic concepts have been published in accredited magazines respectively. The growth and promotion of KM is one of the managerial reactions adopted as a counter measure to the trend of globalization and industrialization. This trend encompasses employees' knowledge growth and technology advancement. On the basis of this approach, organizations' arrangements in this new environment with flat structures, less bureaucratic and network and virtual organizations are more preferred. Organizations in nowadays require to increase their speed and innovation with provision of a platform for creativity and education. Transferring the waves of knowledge growth's pressures to the organizations environments has caused changes in many organizations so that a state of unstable environmental conditions now can be sensed. Therefore, unreliability in commerce together with so many external repetitive elements and unexpected changes has caused the growth of a number of organizations with teamwork arrangements in their structure and a knowledge

oriented culture. One of the reasons for environmental incoherence is the behavior of the persons who are involved in the process of KM activities. Their behavior is stemmed in a wide range of domains like psychology, management knowledge, organizational knowledge, sociology, production engineering, etc.

### **Knowledge Management process**



Taking into consideration the above diagram which shows the KM process, the reasons for KM emersion can be traced back as follows:

1. Changes in industrial business models in which the organization capitals were mainly sensible and national (like production facilities, machineries, land and etc.) and shifting towards organizations which their main assets are intangibles tied up with knowledge, expertise, capabilities and management for creativity of employees.
2. The extraordinary amount of information and its electronic storage and increase in access to information generally has caused escalating of the

knowledge importance. The value of information is realized when they are changed into the knowledge. Information by itself cannot support decision making. Converting information into the human based knowledge is the mechanism which leads to decision making.

3. The change in demography and demographical characteristics is another reason for KM genesis. Too many organizations realized that a large extent of their current knowledge is going to be obsolete. They have convinced that if not take reasonable measures, majority of their vital knowledge and expertise will soon be drained out of organization.
4. Increase in activities expertise levels may also boast the risk of losing organizational knowledge and proficiency due to transferring or firing of employees. In the early stages, KM was being looked upon from the technology point of view. However, organizations gradually understood that to utilize the real skills of personnel they need something beyond information management. Human as opposed to the technology and electronic dimension, are being placed at the heart of development, execution and success of KM and this human factor is the distinction aspect between KM and other concepts like information management.

### **Relationship between HRM and knowledge management**

It seems difficult to predict real outputs of KM. Notwithstanding this, it is correct to claim that people are the main controllers of KM. However HRM is the mature form of KM. HRM can be regarded as personnel strategic management which

focuses on personnel acquisition, organizing and motivation. The role of HRM in KM has been studied and analyzed by a number of scholars and researchers.

As an example, Armstrong believes on the role of HRM as facilitator for education through workshops, projects and conferences and coordinator for preparing business plans which are the result of learning activities (Armstrong, 2003). In another research the daily work of HRM encompasses the followings:

1. Help staff in knowledge creation and usage
2. Implementing suitable networks
3. Involvement in double learning loops

The role of human resources in KM strategies for human resources has given below:

1. Balancing KM with business work instructions
2. Identifying the benefits of KM endeavors
3. Selecting the right KM plan
4. Implementing knowledge strategy
5. Creating supportive environment for KM plans
6. Possibility of technology usage for KM plans
7. Building the KM team
8. Establishing KM leadership

HRM and KM have common activities and objectives while creating working teams, when there is exchange of performance cooperation, in the flow of information and networks both inside and outside of organization. If the KM lifecycle is being compared with HRM a range of various common activities between these two disciplines can be found. Knowledge acquisition is for

recruiting dominant people and supporting their learning process to enhance their personal and professional character. Also it facilitates encouraging people to participate in professional networks and connect to the operations which are beyond the organizational boundaries.

## **Conclusion**

In this article the interrelationship between HRM and KM was examined. It was told that finding a place where HRM and KM are not related to each other is nearly impossible. If HRM is effective management of people and if the most valuable resource of people is their knowledge then it is clear that HRM and KM come close to each other. KM is the ultimate form of HRM. It is required that HRM recognizes the necessity of KM and adopts itself with the KM multifaceted concepts and performances. Elements like selection, development and education, management performance, salary and reward and learning culture are subsystems of HRM which are required for KM realization.

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# Motivation sources and leadership styles among middle managers at a South African University

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**Key Words: motivation, leadership, merger, higher education**

## Introduction

The advent of South Africa's political independence democratised and brought new challenges for institutions of higher learning. Institutions became exposed to a new global economy characterised by labour and capital organised on a global scale, and calls for role players with access to, and supply of information rich knowledge. These characteristics of the new economy and the new government's aims of 'redressing past inequalities, serving a new social order, meeting the pressing needs and responding to new realities and opportunities in the education sector,' resulted in the South African government initiating a policy to transform the higher education landscape using the strategy of mergers and incorporations (Van der Westhuizen, 2004). The transformation would ensure increased accessibility to and equity in the provision of higher education among all races by reducing the country's 36 Universities and Technikons to 23 institutions of higher learning.

To facilitate a smooth transition, implementation of the proposed transformation policy and the creation of new institutions to achieve 'fitness *for purpose*'- that is, the creation of conditions necessary to implement new visions and missions through mergers and incorporations, the Ministry of Education's (MoE) guidelines on mergers and incorporations highlighted the importance of leadership and management during and after the process. The primary task for leadership regarding governance and management during the process was to ensure successful mergers and incorporations of different institutions as well as creating a cohesive social capital in the newly established institutions (Ministry of Education, 2003).

The mergers and incorporations of higher education institutions have almost been 'successfully' done, but today there are reports of: (1) an exodus of high profile people in and out of senior administrative and academic positions from the country's newly created higher education institutions (2) divergent views on the roles of leaders in the newly created institutions (4) disturbingly poor quality and credibility of leadership at some of the higher education institutions which is seen as stalling the much needed transformation in the sector (5) the future existence of the new institutions in South Africa might be undermined by growing corporatisation and managerialism (Blom, 2011). These leadership concerns raise questions on the type of leadership

that is appropriate for the country's higher education institutions and, whether a clear understanding of the leadership in the different institutions is available in order to begin to find an explanation into these disturbing reports?

Research has shown that leaders can be understood and subsequently developed by examining a number of variables that serve as sources of their leadership style. For example, evidence shows the existence of a relationship between a leader's life events and the leadership style they use (Avolio, 1994), personality variables and leadership style (Howard and Bray, 1988), personal variables and leadership style (Atwater and Yammarino, 1993), motivation and leadership style (Barbuto, 2000). In most of these cases, the leadership style mostly reported was transformational, leaving other leadership styles as not important in explaining the variance in data. In addition, evidence has alluded to the existence of different sources of motivation (Leornard, Beauvais and Scholl, 1999) such as goal internalization, self-concept internal motivation, intrinsic process motivation, instrumental motivation and self-concept external motivation. The extent to which these motivational sources could explain different leadership behaviours in the corporate world in the developed context among top management is known (Barbuto, 2000). What is not known is the extent to which these sources of motivation can also be used to understand the different leadership behaviours at other levels of leaders working in other sectors in a developing context where leadership issues are of great concern, such as the higher education in South Africa. Such an investigation within the higher education context in South Africa could help in the selection and development of specific leadership styles for our institutions through motivation profiling.

### **Main objective of the study**

The main objective of the study is to determine relationships between middle managers' sources of work motivation and their use of different leadership behaviours in the workplace.

## **Preliminary literature review**

### **Theoretical background**

This study will be based on the Full-Range Leadership Model (FRLM) proposed by Bass and Avolio (1997). The FRLM describes the distribution of leadership behaviours, ranging from completely inactive (*laissez-faire*) to transactional (Bass, 1985) behaviours to transformational behaviours (Burns, 1978). Transformational leadership behaviours include inspirational motivation, intellectual stimulation, individualised consideration and idealised influence (which originated from the initial charisma aspect) (Morakul and Wu, 2001; Jansen, 2000). Followers of transformational leaders feel trust, loyalty and respect towards their leader and are motivated to go beyond the normal call of duty. The relationship is viewed as mutual stimulation. Transactional leadership behaviours include, management by exception-active (MBE-A) and management by exception-passive (MBE-P), contingent reward as well as *laissez-faire* (Bass, 1985; Balster, 2002). The management-by-exception style entails that followers are rewarded or punished for a designated action. The contingent reward behaviour denotes behaviour that is reciprocal in nature, with laid down systems of rewards and expectation between leader and followers. *Laissez-faire* leaders give their followers freedom and little guidance. Leaders who show charismatic behaviour perceived by their followers as endowed with exceptional skills or talents. Research (Lowe, *et al*, 1996) has shown a strong link between perceptions of a leader as charismatic and followers' commitment and effort.

### **Sources of motivation and leadership behaviour**

Work motivation is a set of energetic forces that originate from within and beyond the individual's being leading to work-related behaviour in terms of determining the form, direction and intensity of this behaviour (Pinder, 1998). The notion of work motivation is grounded in the two basic approaches to motivation, that is, the content theories (Maslow, 1954; Herzberg *et al*, 1959; McClelland, 1985; Hackman and Oldaman, 1976) and the process theories (Vroom, 1964; Adam 1963; Locke, 1968). Using the tenets of these theories, in the last twenty years, five sources of work motivation have been developed and tested to predict transformational leadership behaviour, specifically (Barbuto and Scholl, 1998; Leonard, Beauvais and Scholl, 1999). The five sources are intrinsic process motivation, instrumental motivation, self-concept-external motivation, self-concept-internal motivation, and goal internalisation motivation.

Intrinsic process motivation occurs when people perform work for the sheer fun of it. Work itself acts as the incentive because workers enjoy what they are doing. Therefore, intrinsically motivated leaders find pleasure in the work they do. This could inspire followers and therefore leaders will use transformational behaviours. Instrumental motivation is based on tangible external rewards. Thus, instrumentally motivated leaders see value in reward systems (Barbuto, Fritz and Marx, 2002). We expect that they are therefore likely to use any of the transactional leadership behaviours, which are based on rewards. The self-concept-externally motivated leaders seek affirmation from followers based on their traits, competencies and how they are perceived. They have a high need for recognition (Roberts, *et al*, 2006). We expect that leaders whom are motivated by this source of motivation are likely to display charismatic and transactional behaviours. Self-concept-internally motivated people set own internal standards of traits, competencies and values. These become the basis of their motivation as they engage in behaviours to reinforce the set standards. They have a high need for achievement ( McClelland, 1961). Leaders who are inspired by this source of motivation are likely to value individual employees and the contributions and effort they make and we expect them to use transformational behaviours. Individuals motivated by goal internalisation believe in the cause of the organisation. They then adopt behaviours that are in tandem with their ideal values and beliefs, adopt a sense of duty and working towards the goal of the whole organisation (Barbuto and Scholl, 1998). Transformational leaders are seen as people who trust and believe in the goal of the organisation (Bass, 1985) and therefore are likely to be motivated by goal internalisation.

Based on the above literature, the following hypotheses will be developed:

1. Intrinsic process motivation will be positively related to charismatic and transformational leadership behaviour;
2. Instrumental motivation will be positively related to transactional leadership behaviours;
3. Self-concept-external motivation will be positively related to transactional and charismatic leadership behaviours;
4. Self-concept-internal motivation will be positively related to transformational leadership behaviour, and
5. Goal internalisation motivation will be positively related to transformational leadership behaviours.

### **Envisaged design and methodology**

The study will adopt the positivist paradigm, using the quantitative approach, and a case study design. Sample will be all middle managers (academic and administration) at a South African University. The Multi-factor Leadership Questionnaire (MLQ) (Bass, 1985) will be used to measure leadership behaviours while the Motivation Sources Inventory (MSI) (Barbuto and Scholl, 1998) will be used to measure work motivation source. The MLQ will be administered to both middle managers and their followers. Coefficient alphas for the measures will be calculated. Analysis will be through SPSS. Subscales for both the FRLM and the MSI will be calculated. Correlation analysis (Pearson (1 tailed) will be used to test the hypotheses.

### **Managerial implications**

The study has implications for the recruitment and development of middle management leadership in the higher education sector. Based on the results of the study, other researchers might want to extent the study by focusing on other factors such as job fit, level of education, and work ethics or philosophies.

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**Small-scale fishers and small-scale cane growers: Attaining success in big industry**

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Keywords: Small-scale players, fisheries, cane, business, viability

## **Small-scale fishers and small-scale cane growers: Attaining success in big industry**

Keywords: Small-scale players, fisheries, cane, business, viability

Small-scale players in the fisheries and cane business may be likened to small fish immersed in a big pond. The demands of competing in such industries are large and require an entrepreneurial spirit, combined with a host of skills including financial, marketing, and general management skills. A question that can thus be asked is whether a symbiotic relationship can be established between the small-scale and large-scale actors, given the unique South African context of apartheid, and obvious consequences such as resource ownership, but also covert ones such as educational, linguistic and business abilities. Current debates in the country are partly focused on this question, by way of the spotlight being cast on land and natural resources, particularly within the mining context. This paper will however only address a specific part of this question by focusing on the identification of key factors required to ensure the viability of small-scale actors, specifically in cane farming and fisheries. The aim of this paper is thus to draw on findings of completed research involving small-scale fishers in the Western Cape (WC) and current research pointing to small-scale cane growers in KwaZulu-Natal (KZN). Such research, within the South African context, is critical in providing a better understanding into pressing issues with significant outcomes for a diverse range of players. The focus of the first study was on a policy change in the Western Cape fisheries which impacted a variety of stakeholders. The second study involved an application of systemic methodologies to investigate social complexity in a milling area in KwaZulu-Natal. Both studies utilised a systems thinking perspective which acknowledges holism by understanding how the parts interact. Furthermore, complexity theory also served as the basis for understanding how complexity arises from the actions and interactions of players with diverse perspectives. Other literature focused on the role of leadership, communication and change in multiple-stakeholder scenarios. Qualitative research involving in-depth interviews was conducted in both studies and multiple stakeholders were targeted. The findings, although from two separate studies, point to a variety of factors which impact on the viability of small-scale players who are trying to be successful in the bigger context. Firstly, small-scale actors do not go about business as usual. This is as a result of challenges related to limited financial management and general business skills which impede their ability

to run their businesses successfully and access credit. Specific industry knowledge and a comprehension of the broader structures impacting them, as well as a limited educational base and language command play a critical role in how successful small players are in communicating and negotiating with big industry. Socio-economic factors play a tremendously important role, and constraints are especially faced in terms of limited employment opportunities in the towns and also the skills base that the individuals possess. Operational support and knowledge requirements are pivotal and small-scale players need to be able to strategise and relate to large-scale and industry players. The role of government is undeniable, particularly in providing an array of services from the various departments. Mentoring support or corporate social responsibility by large-scale players and industry comes into question. There is a need for small players to pool their resources, whether through co-operatives or other means, but a challenge is getting small-scale actors to work together, be adaptive and responsive to change, and most importantly, competitive. Recommendations in terms of key factors that are needed to ensure the success of small-scale players centre on aspects around business skills, entrepreneurship, access to capital, and key questions around ownership.

**THE BALANCING ACT**

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## **Abstract**

The purpose of this paper is to investigate the reasons behind small business failure in South Africa. Small businesses along with micro and very small businesses create up to 34% of the country's GDP in 2006 (DTI, 2008: 94). The unemployment rate in South Africa has increased from 23.5% at the beginning of 2009 to 25.3% in 2010 (DTI Annual Report, 2010: 10). According to a Survey done by FinScope, published by Department of Trade and Finance (DTI, 2010: 8) it was estimated that small businesses provide 6 million employment opportunities, and a further 5.6 million small business owners are self-employed. A disturbing 90% of small business in South Africa fails within the first ten years of establishment. Additionally 40% of small businesses fail within the first year (Radipere and Van Scheers, 2005: 402 cited in DTI, 2008: 46). The Global Entrepreneurship Monitor (GEM) and the South African GEM (Kelley, Bosma, Amorós and Global Entrepreneurship Research Association, 2011: 23; Herrington, Kew and Kew, 2010: 4) mention that the Total Early-Stage Entrepreneurial activity (TEA) for South Africa is estimated to be 8.9%, which has increased from the 2006 figure that the DTI (2008: 44) recorded at 5.29%, but it is still below the average of the other countries in the GEM reports (average 11.9%). The discontinuation rate of the total current small businesses (8.9%) is approximately 43%. It can therefore be noted that small businesses activity is important to the economy with regards to their contribution to employment and GDP.

There are several challenges that entrepreneurs are faced with, amongst them are: financing, marketing and managerial skills (Sha, 2006: 50; Chaston and Mangles, 2002: 64). Sha (2006: 50) argues that a lack of financing proves to be a huge problem as many small businesses are undercapitalised from the outset, and the owner/manager lacks the financial management skills that are required to ensure an appropriate balance between their ongoing trading activities and their working capital position (Chaston and Mangles, 2002: 64). In conjunction the FinScope Survey found that 39% of small business owners indicated that financial matters are the main difficulty when starting up (DTI, 2010: 3). Additionally, small firms find it difficult to get adequate financing from banks to fund their operating activities (DTI, 2010: 4).

In order for a product to be recognised in the marketplace, consumers have to identify with the product, and businesses do this by means of marketing (Chaston and Mangles, 2002: 2). This goal can be achieved when the business fully understands and satisfies customer needs. In certain instances some small businesses might find that the utilisation of the classic 4 P's approach is an effective part through which one experiences customer satisfaction (Chaston and Mangles, 2002: 2).

Small business owners tend to focus more on their entrepreneurial talent such as innovation and creativity rather than focusing on the necessary managerial skills needed to run a business effectively (Van Aardt *et al.*, 2000: 270; Nieman *et al.*, 2003: 240). The key managerial skill that is required for effective managing would be that of delegation (Van Aardt *et al.*, 2000: 270; Nieman *et al.*, 2003: 240).

Owner/managers may have difficulty stepping away from the venture and appointing staff to handle to day-to-day running of the operations. It is at this stage delegation of power, authority and responsibility becomes crucial and often the owner has trouble relinquishing control of their business (Van Aardt *et al.*, 2000: 270; Nieman *et al.*, 2003: 240). Personal qualities of a manager relates to having the persistence, commitment and not forgetting having sound human relations (Van Aardt *et al.*, 2000: 270; Nieman *et al.*, 2003: 240).

Women are a significant force in the entrepreneurial world. According to Kuratko and Hodgetts (2009: 29) most men tend to use linear thinking when solving problems. However women who do not employ this strategy are seen to be better equipped to view the complexity of the world around them and are able to assess more factors that are critical to decision making (Kuratko and Hodgetts, 2009: 29). The growth of women owned enterprises has grown at over the last decade at an increasing rate. This is measured by the number of businesses, revenue generation and employment (Kuratko and Hodgetts, 2009: 29). One of the main challenges that women face as entrepreneurs is the work/home role conflict. The societal changes also poses a critical problem for women in which the pressures of the entrepreneurial role and the home maker become incompatible (Kuratko and Hodgetts, 2009: 29).

The paradigm of this research is based on a phenomenological qualitative study and its main focus is based on an on - going case study. This case study is situated in the in the Western

Cape, South Africa and falls within the fashion industry. The business has failed in the past and has subsequently, started up again and is still in the start-up stage of the organisational life cycle. Our research aims to explore the reasons behind the discontinuation of the previous business in the hopes of recommending to the owner ways to avoid the same mistakes. An in-depth interview will be conducted with the female owner/manager of the business to gain the owner's perspective. With regards to this particular case study it is relevant to understand the owner's unique perspectives as a women and an entrepreneur.

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# **The determinants of the choice of commercial banks by university students in South Africa**

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## **Abstract**

University students represent an attractive segment of customers for retail banks in many countries including South Africa. The objective of this study was to investigate the determinants of the choice of commercial banks by university students. Data was collected through self-administered questionnaire. Convenience sampling method was used. For data collection, forty questions were identified through a review of the literature. Principal component analysis reduced the forty questions to six factors namely, service, proximity, attractiveness, recommendations, marketing and price. Data was analysed using descriptive statistics, correlation, T-test and ANOVA. The Cronbach's alpha was used to test the reliability of the scales. The results showed that the six factors are important factors are important determinants of the choice of commercial banks. Recommendations included marketing strategies by commercial bank management focused on different market segments including university students.

**Keywords:** Commercial banks, Determinants, University students

**TO MEASURE THE SUCCESS FACTORS OF SMALL FAMILY BUSINESS**

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## ABSTRACT

In a special issue of the Journal of Small Business Management Heck, Hoy, Poutziorris & Steier (2008), commented in an article entitled: Emerging paths of Family Entrepreneurship Research, that the field of business and entrepreneurship is unique in its multidisciplinary approach. Next, that prior research has often lacked a broad and comprehensive view of the family firm with little attention to both the business and the family underlying such enterprises. In this study, a secondary exploratory analysis was undertaken, however to measure the success factors of small family firms. As indicated family firm research has often lacked a broad and comprehensive view, the researcher, proposes a research design approach consisting of a combination of both small qualitative, interviews and large quantitative survey questionnaires, also known as mixed methods. Thus, the major area of this study will be located within sociological positivism and anti-positivist paradigm. It stresses that the ultimate reality of the universe lies in „spirit“ or „idea“. It is positivist“ in epistemology, „voluntarism with regard to human nature and favour ideographic methods as a foundation for social analysis Burrell and Morgan (1996:28). Included within this approach exists assumptions about society and nature of society in terms of regulation--radical change dimension (Thus to be located in a particular paradigm is to view the world in a particular way). Thus this study will be less located in the interpretive paradigm and more in the functionalist paradigm (Burrell and Morgan, 1996: 28). In this approach, the social science tends to be nominalist, anti-positivist, voluntaristic and ideographic. Furthermore, from the main schools of organisational analysis the study will be located within the sociology of regulation.

Findings based on the limited secondary data collection, indicated, indicated a variety of factors underlining the success of small family businesses. Namely, “integrity” and “commitment to business” as the two then most desirable next generation attributes from the point of view of the firm leader. Other attributes, included, the ability to gain respect of non-family employees, decision-making abilities and experience, interpersonal skills, intelligence and self-confidence. A relationship existed between the variables, namely social capital, family, distinctiveness and generational capital which lead to family business success.

(Venter, 2007).Keil's (2007) research into the success factors amongst family small businesses established that there is a correlation between: Entrepreneurial personality; the use of management tools" and the availability of resources for the success of family small business owners. Furthermore,Keil's (2007)research also indicated that, persistence and determination, experience, entrepreneurial personality, business knowledge, a great team, an education in these behaviours are conducive to success by comparing successful and unsuccessful business owners.Sharma, (2004:18), revealed the importance of financial planning, preparing a business plan and investing in advertising for business(Shinnar and Young 2008).Chrisman, Steier, and Chua, (2008), commented on the dynamics of the strategic performance in family, firms, and concluded that an important distinction between family and nonfamily firms and among the different types of family firms is the manner in which strategy is formulated and implemented. They said that these differences in strategic behaviours can cause variations in performance (success). Shinnar and Young (2008: 257-8) concluded that although financial outcomes are the traditional way of measuring success,it would be beneficial to assess the degree to which Hispanics choose to enter business ownership based on *intangible rewards*,such as pride and social recognition. N, Loy and Strafford(2008) In a nationally represented sample using multiple scale to measuring small business success, in the USA, Danes, Johnben, Loy and Strafford, (2008) including congruity and business revenue, identified, a positive customer reputation was the most the important business goal for just under half of the family firms. These finding have an impact on the leadership and management of these family firms. Lastly, these research findings demand that we no longer simply assume that all business is the same, regardless of the minority status or ethnicity. Indeed, family entrepreneurship appears to manifest differently relative to its minority, ethnic, and cultural contexts. Thus family firms are at the crossroads (Heck &Mistra, 2008).

## INTRODUCTION

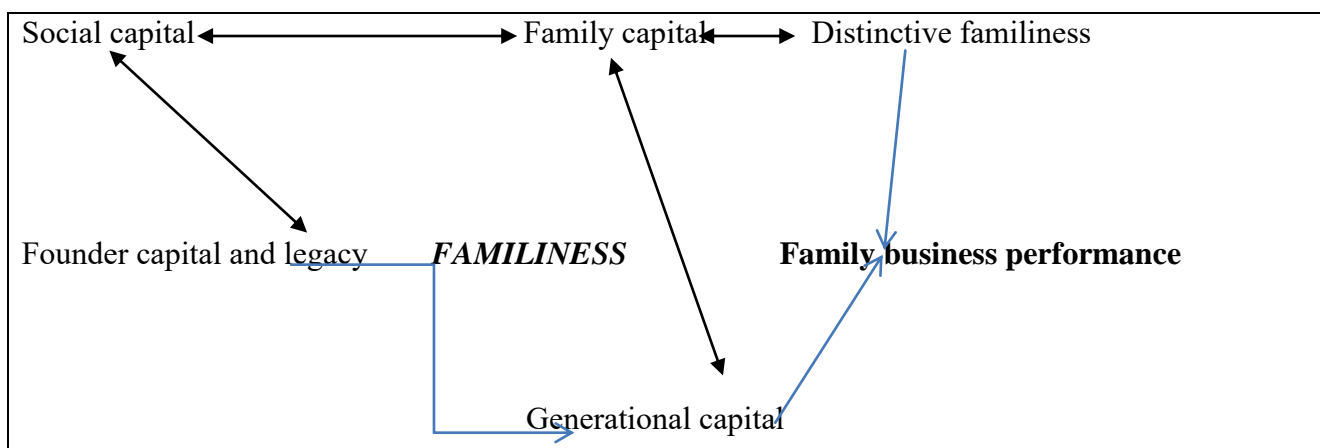
According to the White Paper 1995 on small, medium and micro-enterprises (SMMEs) represent an important vehicle in addressing the challenges of job creation, economic growth and equity in our country. Nieman and Nieuwenhuizen (2009) said throughout the world one finds that SMMEs are playing a critical role in absorbing labour, penetrating new markets and generally expanding economies in creative and innovative ways. Furthermore the White Paper of 1995 posited that the appropriate enabling environment for family SMMEs in this country can follow these examples and make an indelible mark by creating new jobs and reducing poverty in this economy. The stimulation of SMMEs in SA must be seen as part of an integrated strategy to take this economy onto a higher road - one in which our economy is diversified, productivity is enhanced, investment is stimulated and entrepreneurship flourishes.

The White Paper of 1995 represents "government's thinking on what it can contribute to the process of stimulating small, medium and micro-enterprises (SMMEs) . Government believed that the real engine for sustainable and equitable growth in this country is the private sector. Venter, Kruger and Herbst (2007:1), Nieman and Nieuwenhuizen, (2009) also in their research reported that SMME"s and family businesses were prevalent phenomena in the economies of most countries including South Africa.

South African entrepreneurs have, and continue to have a fundamental effect on the economy by establishing new and growing businesses that provide not only goods and services to customers, but also job opportunities for individuals in various industries (Nieman and Nieuwenhuizen, 2009:29). Furthermore, it is important to distinguish between entrepreneurship ventures and small business ventures. Both fulfil the ambitions of their founders and managers in different ways, and present challenges to policy makers. Small business ventures will tend to stabilise at a certain stage and only grow with inflation (Nieman & Nieuwenhuizen, 2009: 217). In South Africa family-owned business are very visible in black townships- part of the second economy. Family businesses and their contribution to socio-economic growth have never received sufficient attention in South Africa (Nieman and Nieuwenhuizen, 2009: 217).

Ferreira (2007) also indicated in his research that most SMMEs were comprised of small family firms and that more research is needed to highlight the perceived success factors in these small family firms. However, Venter et al. (2004:1) also indicated in his study that insight into this enterprise is limited and has been largely ignored as a field of study. Venter et al. (2007), also indicated that family businesses have been seen as dysfunctional entities by historians since the 1950s. However, recent interest has grown in identifying and understanding those facets of business that support the superior performance of family firms. In a special issue of *The Journal of Small Business Management* on "Family Entrepreneurship" Heck and Mistra (2008:315) said that family entrepreneurship has always existed but has remained under-studied by family business researchers. The special issue on family entrepreneurship highlighted the fact that minority businesses and their owning families have long been under-studied, research findings demand that we no longer simply assume that all business are the same, regardless of minority status or ethnicity, family entrepreneurship appears to manifest differently relatively to its minority, ethnic and cultural contexts.

Though traditional models have proven to be useful in the earlier understanding of family business, the analyses indicate that family businesses are entities that need to be accepted and respected. Furthermore, Venter et al. (2007:1) concluded that the orthodox theories that consider the business and family as separate units, do not acknowledge the complexity of the different relationships that exist in a family business. Venter et al. (2003: 5) also suggested that a framework for investigation into the discipline and the continuous planning of the generational-transition of families in the form of founder-family and generation needs to be compiled. Capital needs to be invested that leads to superior business. In figure 1, Venter et al. (2007:1) illustrated the complexity of the current relationships that may lead to business success, in a family business. There exists a relationship between the variables, namely social capital, family, distinctiveness and generational capital which leads to family business success.



**Figure 1: Framework of distinctive family business performance**

**Source:** Venter, et al. (2007: 5)

### MAINPROBLEM STATEMENT AND OBJECTIVES

There seem to be many definitions of, and views and ideas about the success of a family SMME"s. The owners of such business have different reasons for starting and managing their businesses. However, their goals and their views on success also differ. Whatever their view of success, it needs to be measured to determine whether or not they are successful. There are also different ways to measure the level or degree of success. The literature reveals that success comes in many forms and with many measurements (Ferreira, 2007).

"Making a living" is important but going beyond that is not often seen of great concern by SMEs" (Reijonen & Komppula, 2007:689). A study in Finland showed that entrepreneurs are likely to measure their performance (success) by other criteria and find success in job satisfaction and satisfied customers (Reijonen & Komppula, 2007:689). In the same study many small-firm entrepreneurs set non-financial goals and mentioned a "no-growth" objective. At the same time they did not regard maximisation of profit as an important goal. The desire for independence is the biggest motivational factor for the small firm owners (Venter: 2007).

According to Anon (2006:1), it is often assumed that the primary reason for starting a business is money and that profit is the only measure of success. He says that this thought is really another myth about entrepreneurship. Entrepreneurs evaluate and measure success in different ways, as indicated by the jobs they create, the satisfaction of their customers, by

creating an environment that fosters human development and provides for the common good and self-satisfaction.

Keil's (2007) research into the success factors amongst family small businesses established that there is a correlation between: Entrepreneurial personality; the use of management tools; the availability of resources for the success of family small business owners. In addition, the following was also reported to contribute to owner/manager success namely; persistence and determination, experience entrepreneurial personality, business knowledge, a great team, an education in these behaviours are conducive to success by comparing successful and unsuccessful business owners.

### **Primary Objectives**

Which criteria are used to measure the success factors of small family businesses? "More research is needed to highlight the perceived success factors in these small family firms" "Entrepreneurs evaluate and measure success differently. "

### **Secondary objective**

- To understand the nature of family business
- How to define and measure success within the family business.
- To understand the effects of family business and entrepreneurship on the economy.
- To highlight future research.

## **LITERATURE REVIEW**

### **Theoretical or conceptual framework**

Systems theory is one of many theoretical approaches used in the study of family business and remains all-encompassing in current literature (Poza 2007:6). Social capital theory, Institutional theory, (Di Maggio & Powell, 1991: PAGE), Feminist theory, Social network and Social support theory (Shaw & Carter 2005) are also other theories used in the entrepreneurship literature. However, Rigwema, Urban and Venter (2005) mention *networking* as the entrepreneur's social capital base and social capital exchange, social ties, and trust as



crucial to entrepreneurs. Thus, for family businesses, in my opinion, would need to strive on social capital to remain successful (Rigwema, Urban and Venter, 2005:81)

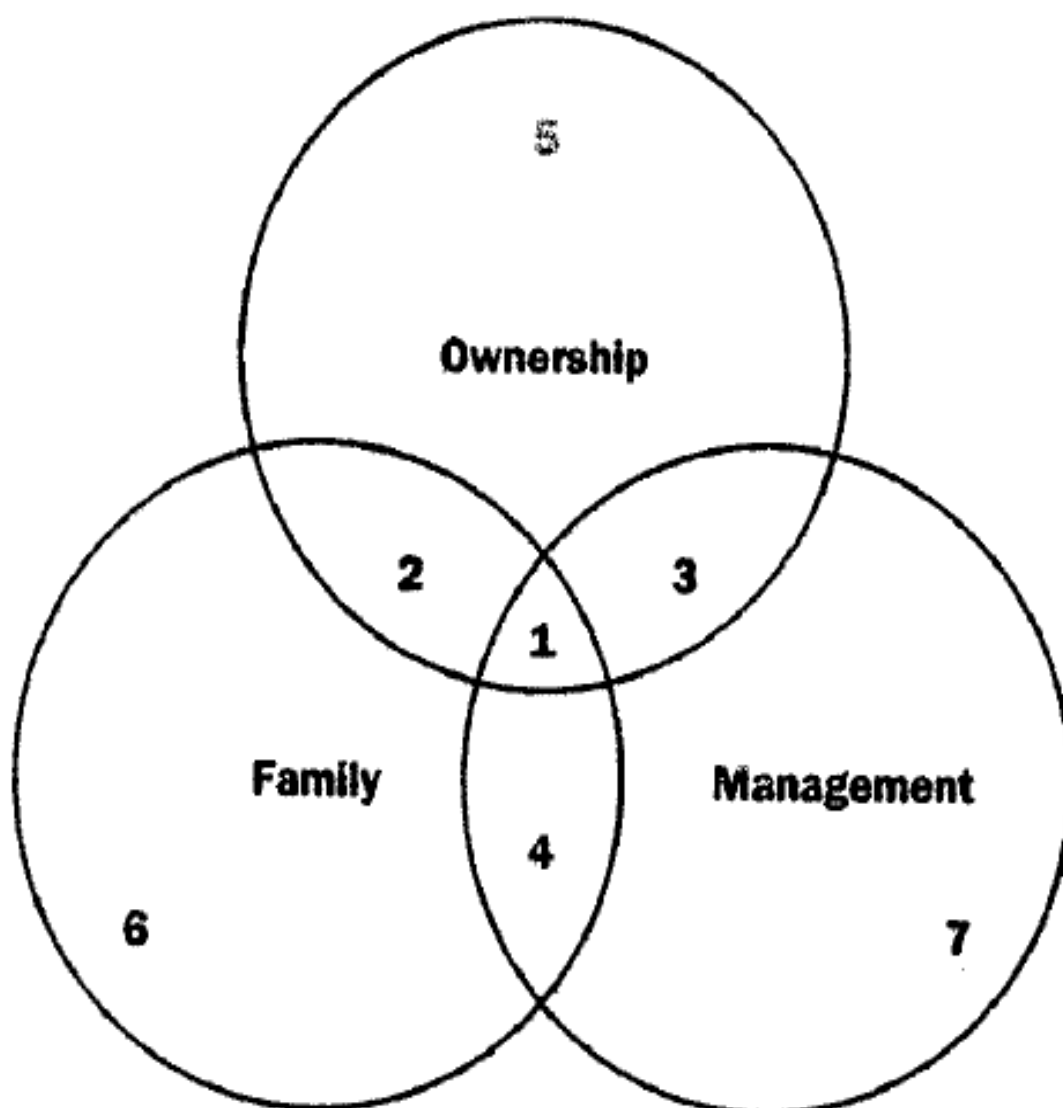
In linking family business to social capital theory, as the ability of actors to extend benefits from the social structures, networks and memberships. Thus social capital is crucial to facilitate the discovery of opportunities, as well as the identification, collection and allocation of scarce resources. A family business is a microcosm of the business fraternity in a macro economy and will draw upon existing social networks and construct their own ones in the process of obtaining knowledge and resources for their ventures this is sometimes known as a business network

Thus, social capital theory consists mostly of knowledge (trust, belief, rules, and norms) (McElroy, Jorna and Engelen, 2006:124). They explained that the capacity to individually and collectively learn (in networks), is the most important form of social capital. They propose social capital as from two different perspectives, namely, the major schools of thought and the analytical aspects of social capital. (1Ego-centric or psychocentric theories and 2. Socio-centric theories). In a special issue of *Entrepreneurship and Practice*, (Bruton, Ahlstrom Lin-li 2010:421) explained that, institutional theory is proving to become a popular theoretical foundation for exploring a wide variety of topics in different domains ranging institutional economics and political science to organisation theory (Bruton, Ahlstrom Lin-li 2010:426) identified three major streams of this theory when linked to entrepreneurship, the institutional setting, legitimacy and institutional entrepreneurship. In addition they also highlighted three major shortcomings, reliance on single perspective of institutional theory, reliance on the examination of culture and examining single countries. Since family firms are the most common form of business in most major economies these shortcomings will have an effect on the success factors of these entities.

In this study, the Systems Theory Approach is used, as such, the firm is modelled within three overlapping, interacting and independent subsystems of family, management and ownership. According to the open systems model each subsystem contains boundaries which separate it from the other subsystems and the general environment in which the firm operates (Poza 2007:6).

In order for the organisation to perform optimally, the subsystems must be integrated so that there is united functioning of the system. In figure 2, there is a clear overlap between the business, management and the family.

General systems theory also suggests that in order to reverse the natural progression towards decline or entropy, the three subsystems and the larger family business system all have to increase their internal capabilities in order to successfully cope with increasing variety in the environment. A family firm can based on this be understood as a complex dynamic social system in which integration is achieved through reciprocal arrangements among subsystems. It is for this reason that the family subsystem is expected to have strong impact on the ownership and management subsystems and in return the subsystems cannot be separate from the entire system (Poza, 2007: 6-7)



**Figure 2: The Systems Theory Model of Family Business Poza (2007)**

However, the development processes of the family members and non-family managers in the various sub-systems along with the developmental cycle of the enterprise as an example will also constantly bring change to the mix. The family firm from a systems perspective will face differing systematic alignments and misalignments examples of this include, new generations joining the firm, earlier generation ageing, the firm experiencing accelerated growth as a result of service or product innovation (Poza, 2007). Research has found no significant difference in many of the dynamics or practices present in first-, second-, and third-generation family firms, although there was greater succession planning in second- and third-generation family firms than in the first generation (Poza, 2007:6-7).

What then constitutes a Family Business? According to Chrisman, Chua and Sharma found 21 differing definitions of family business in a review of 250 research papers. Family business can come in many forms such as sole proprietorships, partnerships, limited liability companies, small corporations, closed corporations, holding companies and publicly traded and albeit family-controlled companies. It is for this reason that the number of family businesses operating in the United States economy range between 17-22 million. Worldwide estimates of family businesses range between 80 percent and 98 percent of registered businesses.

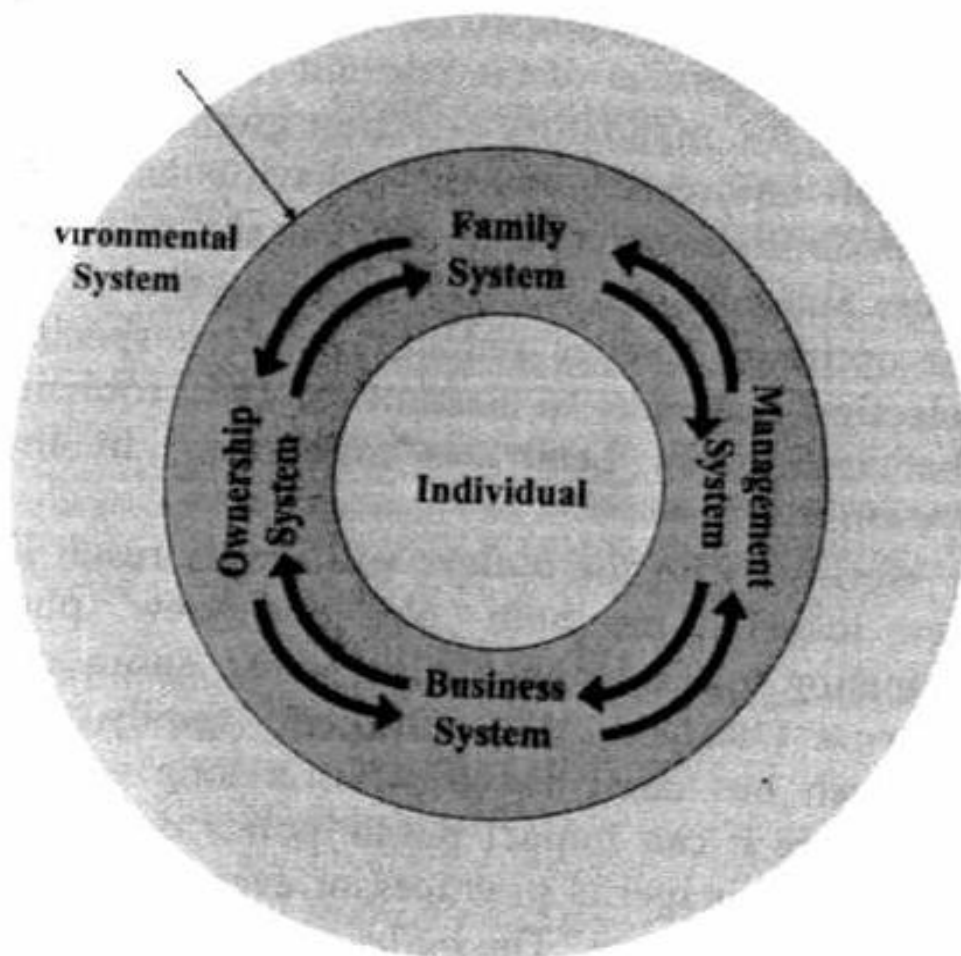
In another study of family contractual relationships in the Spanish newspaper industry, a business was considered to be a family business if the last name of the CEO and/or the editor was the same as that of the owners. Another study took the position that firms are theoretically distinct from other closely held firms because of the influence of altruism on agency relationships (relationship between shareholders and management). This study went on to explain that family firms are differentiated by both the active involvement of family in the management of the firm and the intent of the family members to retain ownership of the firm. This study defined family business as “an enterprise in which two or more family members hold 15 percent or more of the ownership, family members are employed in the business, and the family intends to retain control of the firm in the future.

In Torsen, Pieper, Sabine and Klein (2007:301), recognised the uniqueness of family business to the different influence that family ownership, governance and management. See figure 3 below. They inferred that in the family business field, many useful and important models have been developed structure and explain the complex interaction of the family business. They stated that the family business field is now far enough advanced and that they proposed a more complex model which would be able to incorporate the multidimensional nature of

family business. Previous research on family business is fragmented and noncumulative and lacks the solid theoretical grounding. (Pieper and Klein 2007:302).

However, despite the rapid pace of model development, the models lack of integration` of the previously developed approaches remains. Potential drawbacks of the recent models pertain to their relatively high levels of complexity. Thus,an advance mode of family business should include all relevant subsystems of family business; the environment, acknowledgement of the interactions among the subsystems, application of a dynamic perspective and allowance for the integration of multiple levels of analysis and theories from both business and mainstream research.(Pieper and Klein 2007:302).

(Pieper and Klein 2007: 308-309) proposed a systems approach to modelling family firms. See Fig 3. The application of the model can assist the researcher in integrating these different concepts in a coherent way and help him or her to better describe and explain family business reality. A family business practitioner and advisors can use the model to analyse the interactions in order to disentangle complex situations.



**Figure 3: The Bulleye: Two Dimensional On looks onto the Three-Dimensional Open-System Approach**

Thus, the family business field is not only advancing rapidly but is also constantly gaining relevance within and beyond the business research. Pieper and Klein. (2007: 301). Overall research of family firms had been directed toward the individual or group levels, with scant recent interest in the organisation level. Further, the impact of family firms at societal level has largely been ignored, except for the documentation of large number of these firms in different nations. Heck, Hoy, Poutziorris and Steier (2008:317) indicated researches of family entrepreneurship have future research choices that will “make all the difference” the bulk of research conducted within business schools has ignored the family dimension of enterprises, in particular family SMME’s.

Sharma and Irving (2002) had developed a theoretical model to understand the behavioural and performance implications of the next –generation family members based on their reasons for pursuing a career in their family firms.

Another stream of literature has attempted to understand how conflicts may be resolved and the impact of adopted resolution strategies on financial and non-financial dimensions of the firm performance. Further research that applies to the model needs to add to the better understanding of how many theoretical perspectives it can accommodate without creating confusion. The five conflict management strategies of competition, collaboration, compromise, accommodation and avoidance are used by family firms. (Sharma, 2004:18).

According to Sharma (2004), Astrachan, Klein and Smyrniotis (2002) have presented a validated ready-to-use scale for assessing the extent of family influence on any business organisation. This continuous scale is comprised of three subscales: power, experience, and culture (F-PEC). Rutherford (2008) study had been cited in Vought, Baker and Smith (2008), for its practical value of the (F-PEC) scale by stating that family businesses should identify opportunities to exploit the high levels of family involvement in the firm that can enhance the performance of the firm.

Exploratory research revealed that “integrity” and “commitment to business” as the two then most desirable next generation attributes from the point of view of the firm leaders. Other attributes, include the ability to gain respect of non-family employees, decision-making abilities and experience, interpersonal skills, intelligence and self-confidence (Blumentritt, Key and Astrachan, 2007: 330-331) specifically on the role of the non-family CEO’s, scholars might explore what it means to be a good nonfamily CEO (NFC).

The literature on boards and family councils has developed in recent years, but there is still room for understanding their roles and contributions vis-a-vis NFCs. Furthermore, research on succession readiness and control (de Pontet, Wrosch and Gagne, 2007, 351-352) identifies the following gaps for future research. Namely, the absence of strong predictors for leader’s control suggested that additional variables must be considered. Moreover, future studies should also examine personality variables to see what these roles play in the ability to relinquish control as evidence provides that those business stakeholders may have an important effect on the succession process.

Shinnar and Young (2008) in their study on Hispanic entrepreneurs in the Las Vegas metropolitan area noted that pull factors had a strong impact on entrepreneurship than push factors. In addition, the importance of financial planning, preparing a business plan and investing in advertising for business viability was identified. In this study viability and success are often measured in terms of financial outcomes. However Shinnar and Young (2008) said that obtaining profitability data can be problematic because business owners may be reluctant to disclose such information. In the absence in of this data they followed Zuiker's (1998) and used survival as a proxy for success (Chrisman, Steier, and Chua, 2008). In the dynamics of the strategic performance in family firms concluded that an important distinction between family and nonfamily firms and among the different types of family firms is the manner in which strategy is formulated and implemented. They said that these differences in strategic behaviours can cause variations in performance, and therefore contributes to the development of strategic management theory of family firms.

### **RESEARCH DESIGN AND METHODOLOGY**

How can the researcher design effective scientific investigation (Sharma, 2004:23)?

In probability sampling (*n*), researchers use random selection of elements to reduce or eliminate sampling bias as well as the range of sampling error present (Cooper and Schindler, 2003:200). However, despite the technical advantages of this selection we will use nonprobability, restricted or snowball sampling method is suggested for handling a small sample (Shinnar and Young (2008:248). They also suggest the researcher conduct interviews for the following two reasons, First interviews allow for better data collection from a population that is unfamiliar with survey research and frequently have limited English skills. Second, through interviews, one is able to build rapport with each interview. Time and cost (less expensive) are additional reasons for nonprobability sampling. Lastly this method is used when respondents are difficult to contact

## **RESEACH METHODOLOGY PARADIGM**

The major area of this study will be located within sociological positivism and anti-positivist paradigm. It stresses that the ultimate reality of the universe lies in „spirit“ or „idea“. It is „anti-positivist“ in epistemology, „voluntarism with regard to human nature and favour ideographic methods as a foundation for social analysis Burrell and Morgan (1996:28). Included within this approach exists assumptions about society and nature of society in terms of regulation--radical change dimension (Thus to be located in a particular paradigm is to view the world in a particular way). Thus this study will be less located in the interpretive paradigm and more in the functionalist paradigm (Burrell and Morgan, 1996: 28). In this approach, the social science tends to be nominalist, anti-positivist, voluntaristic and ideographic. Furthermore, from the main schools of organisational analysis the study will be located within the sociology of regulation.

## **RESEARCH DESIGN**

A research design refers to the development of a structure to perform the collection and documentation of data with the aim of answering questions, proposals or hypotheses (Zikmund, W.G and (2003 Venter, 2007, 225). Both an exploratory and descriptive research designs will be used to measure the success/failure factors for family owned SMME's. This study will have both a quantitative and qualitative method, being referred to as triangulation-mixed methods. This method is used to prevent „paradigmatic rigidity“. The great advantage of this is that it helps to prevent threats to construct validity of key concepts in an investigation, i.e. the threats of inadequate explication of key concepts, mono-operation bias and mono-method bias. The data will be collected from the various sources mentioned above. Thus the collection is non-standardised and uses a variety of formats.

In this research the researcher identifies some limitations inherent in the proposed method of extraction. Firstly, on the quantitative, we may find, a) statistical-the propensity of the results due to the samples p-values; (the exact nature of the data) b) the practical value-use of effect sizes.(Kirk 1994); c) clinical, the „convincingness“ of the data which can be used; d) economical, the economic value of the effect of the intervention. Secondly, qualitative shortcomings, a) researcher bias; b) observer effects; c) write so that the study can be replicated; d) lack of representativeness, legitimisation (reliability, validity and generalizability), thus the extent to which the researcher captured the data has not been



adequately addressed. The three forms of mixed methods are parallel, concurrent and sequential. The research will use the parallel mixed analysis.

## **DATA COLLECTION**

### **SAMPLING**

In probability sampling (*n*), researchers use random selection of elements to reduce or eliminate sampling bias as well as the range of sampling error present (Cooper and Schindler, 2003:200). However, despite the technical advantages of this selection we will use nonprobability, restricted or snowball sampling method is suggested for handling a small sample (Shinnar and Young, 2008:248). They also suggest the researcher conduct interviews for the following two reasons, firstly interviews allow for better data collection from a population that is unfamiliar with survey research and frequently have limited English skills. Secondly through interviews, one is able to build rapport with each interview. Time and costs (less expensive) are additional reasons for nonprobability sampling. Lastly this method is used when respondents are difficult to contact

Van Der Merwe and Ellis (2007) and Farrington et al. (2010: 15), also indicated that no complete list exists that distinguish family from non-family businesses in South Africa. Since the study's main objective is to determine the perceived success factors of family businesses (SMMEs), the researcher will attempt to survey 2 500-5000 or more family businesses (SMMEs), based on the availability of elements. In cases where the company had a global footprint, the South African operation will be studied.

This sampling technique and methodology is consistent with that of other family business research studies that have been constrained by the lack of a national database (Van Der Merwe and Ellis, 2007) and (Farrington et al., 2010: 715). The respondents will be chosen based on the availability and willingness to participate. The target population of this study will be small family firms in SADC.

To generate a preliminary list of family businesses, the researcher will first contact well-known businesses in Johannesburg central municipal district of South Africa. The latter identified a further set of family businesses. These referrals will be contacted telephonically to confirm that they adhere to the definition of small and medium-sized business (National Small Amendment Act, 2004:2, National Small Business Act. 1996) to be used in this study

## **SECONDARY RESEARCH:**

An exploratory literature study will be undertaken to search for definitions, interrelationships, viewpoints, principles, methodologies and other research findings. This method has been chosen as it allows for the comparison of different views to arrive at a conclusion. This method does not aim to arrive at a perfect definition of the terms or the interrelationships, but to highlight these aspects and their potential impact.

## **PRIMARY RESEARCH**

### **Constructing a questionnaire**

A survey study will be conducted. The main objective of the questionnaire will be to determine the attitude or perception of selected demographic variable of owner-managers, other family members and/or the non-family members on the perceived success (failure) of family businesses. For the purpose of this study, success will be measured using the following but not limited to the following variable's namely *financial performances, growth performance and satisfaction* (Farrington & Venter 2010: 17). Thus the measuring instrument (questionnaire) based on the literature review was developed to test the propositions. A survey (structured questionnaire) will be administered by the researcher, using mail, and internet to the respondents identified by means of a convenience snowball sampling (Farrington, Venter, Boshoff and Eybers, 2009:8). Each questionnaire will be accompanied by a covering letter guaranteeing the confidentiality of their responses and by initially offering to collect the completed forms, to motivate the participants to complete the forms (Anon 2010:10).

Firstly, a 40-60 item questionnaire will be designed, with 15 items relating to demographic and general questions and the rest to the family and non-family members on the perceived success (failure) of family businesses on a basis of a five point Likert type scale ranging from 1 = *strongly disagree* to 5 = *strongly agree*. In respect to each statement, subjects have to indicate the degree of agree or disagree with a certain statement. (Anon, 2010: 11).

Secondly, an advanced Google search of South African websites will result in names of family businesses (SMMEs). The data will be collected bi-monthly to ensure continuity, validity and reliability.

A pilot test will be conducted to detect weaknesses in design and instrumentation, and to provide proxy data of a probability sample. The size of the pilot group could range from 25 to 100 subjects. Pre-testing will be used in order to improve the questionnaire. This activity

may be repeated several times to refine questions, instruments, or procedures. Data will be edited to ensure the consistency across respondents and to locate omissions. In the case of the survey method, editing reduces errors in recording, improves legibility, and clarifies unclear and inappropriate responses. Alphanumeric codes are used to reduce the responses to a more manageable system for storage and future processing

### **Data Analysis**

In this article secondary data analysis was used. This method does not aim to arrive at a perfect definition of the terms or the interrelationships, but to highlight these aspects and their potential impact.

In the proposed study questionnaires will be statistically processed by using the Statistical Consultation Services of the Wits Business School, Johannesburg. Demographic information of the participating owner-managers and family businesses will be gathered, analysed and presented in frequency tables.

An exploratory factor analysis (EFA) will be conducted to identify the unique factors present in the data, and as such moderate the validity of the measuring instrument. Principle component analysis with varimax rotation will be specified as the extraction and rotation of any models relating to the independent variables. In determining the factors (constructs) for the chosen model, the percentage of variance will be explained and the individual factor loading will be considered.

### **Reliability and Validity**

The following constructs describe the validity of the instrument, namely; content; face; sampling; criterion; concurrent; predictive; construct; convergent; discriminant and homological validity (Venter, 2007: 247-249).

Furthermore, Venter (2007:246) explained how the validity of the empirical questions investigates two important issues, namely: (1) whether the instrument measures the required notion, and (2) whether accurate measures are applied to examine the notion of enquiry. Content validity has to do with the representative adequacy of the different topics investigated by the instrument (Venter, 2007:246). The quality and the consistency of the measuring instrument refer to the reliability of the measurement (Venter: 2007: 249). It cannot be calculated, it can be estimated.

## LIMITATIONS

This study is an exploratory study. Accordingly, Leech and Onwuegbuzie (2004:772) said that the most serious limitation of statistical testing is that “not only do most researchers do not want information, but what information can be found through statistical significance testing but policy makers and change agents are usually unable to glean helpful information from a reported *p* value of .05. Although the strength of qualitative research lies in its focus on extracting meaning, like quantitative research, it has serious limitations including researcher bias, observer effects, and writing about qualitative research prejudice and bias, observer effects, and writing about qualitative research so that readers can replicate the study. Basically these limitations give rise to what are referred to as the triple crisis of representation, legitimation, and praxism (Denzin & Lincoln, 2000). The crisis of representation, legitimation and praxis threaten qualitative researchers’ ability to extract meaning from there. This gives rise to two assumptions, the problem of representation, but does so within a framework that makes the direct link between experience and text problematic (Leech and Onwuegbuzie, 2004:778).

## CONCLUSIONS

This study revealed the following factors as contributing to the performance of family business that “integrity” and “commitment to business” as the two then most desirable next generation attributes from the point of view of the firm leader. Other attributes, included, the ability to gain respect of non-family employees, decision-making abilities and experience, interpersonal skills, intelligence and self-confidence. A relationship existed between the variables, namely social capital, family, distinctiveness and generational capital which lead to family business success. (Venter 2007).

Keil’s (2007) research into the success factors amongst family small businesses established that there is a correlation between: Entrepreneurial personality; the use of management tools and the availability of resources for the success of family small business owners. Furthermore, Keil’s (2007) research also indicated that, persistence and determination, experience, entrepreneurial personality, business knowledge, a great team, an education in these behaviours are conducive to success by comparing successful and unsuccessful business owners. Sharma, (2004:18), revealed the importance of financial planning, preparing a business plan and investing in advertising for business (Shinnar and Young 2008).

Chrisman, Steier, and Chua, (2008), commented on the dynamics of the strategic performance in family, firms, and concluded that an important distinction between family and nonfamily firms and among the different types of family firms is the manner in which strategy is formulated and implemented. They said that these differences in strategic behaviours can cause variations in performance (success). Shinnar and Young (2008: 257-8) concluded that although financial outcomes are the traditional way of measuring success, it would be beneficial to assess the degree to which Hispanics choose to enter business ownership based on *intangible rewards*, such as pride and social recognition.

### **Managerial Implications**

According to Sharma (2004: 23) the ultimate aim of the field of family business studies is to improve the functioning of family firms. Sharma mentioned that the aim could be achieved by gaining deeper understanding of the forces that underlie these firms. The creation and dissemination of usable knowledge is a painstaking effort that requires strategic thinking. “Not only must we use our intellectual resources, we must continuously attract and retain good thinkers” (Sharma, 2004:23).

(Torsen, Pieper, Sabine and Klein, 2007:309) said like previous models, their model had some limitations that, at the same time, indicated promising routes to further research. The proposed model needs further evaluation and application in order to fully develop its capabilities. However family research has come far, but has a long way to go before it can impact public policy decisions, improve managerial practices, or even enrich scholarly literature (Pieper and Klein 2007:310).

Pieper and Klein (2007:3011) said researchers are challenged to master more effectively the relationships between researchers, practitioners, sponsors, and policymakers and in particular, South Africa.

Most recently the GEM highlights the positive role of the family as a source of informal support and investment money for start-ups and aspiring entrepreneurs. Heck, Hoy, Poutziorris and Steier (2008:326). They said that research should not only focus on the capitalistic role in entrepreneurship process, we need to address the broad and fundamental influence that the family itself plays in the emergence of entrepreneurship and vice versa. Included in this debate or challenge is to include more root disciplines, such as family studies or family sociology, which would enrich theories and conceptualizations. Withal, Heck, Hoy,

Poutziouris and Steier (2008:327) said that entrepreneurial activity throughout the world has a family dimension. They propose ten (10) specific research paths. Heck et, al. 2008:26)-27)

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**BUSINESS SUPPORT AND BUSINESS FINANCE: PRELIMINARY  
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**Key words: Business support programmes, small enter, financial support, non-financial support**

# **BUSINESS SUPPORT AND BUSINESS FINANCE: PRELIMINARY EVIDENCE**

## **Abstract**

This paper examines the role of a semi-state organisation which, despite international advice, provided financial and non-financial business support to small enterprises. The paper examines the ability of financial and non-financial support to grow small enterprises, as well as the barriers to such growth. This was done by means of a brief overview of the international paradigm shifts and an assessment of the South African small business policy environment. Data were collected from a sample of 127 entrepreneurs in the Free State. The key findings are that the supply-driven approach in respect of finance overshadows the non-financial approaches and mostly leads to a neglect of those approaches. Financial support is fairly effective in creating new business assets and equipment, but seldom helps to open markets. The value of this research study is that, despite the noble intent to provide business support services to entrepreneurs who were excluded from mainstream business support programmes, there has however, been a limited focus on the market side of such enterprises.

## **Introduction**

Business support programmes for entrepreneurs have changed considerably during the past two decades (Bannock and Peacock, 1989). The programme intent has moved away from a supply-driven mode to a more distinctly demand-driven mode in which the focus is on opening markets for small enterprises, especially those that were previously disadvantaged (Rogerson, 2006). In the process of developing small enterprises, business support programmes have delinked financial and non-financial support. With the democratisation of South Africa, a huge emphasis was placed on redressing inequalities in respect of business support programmes to small enterprises in South Africa. South African policy development has also gone through a number of phases and currently, Seda is primarily responsible for non-financial business support in the country (DTI, 2002; 2005; Rogerson, 2005; Seda Annual Report, 2007). Effectively, financial and non-financial business support has, in accordance with the international trend, also been delinked. However, a development parastatal in the Free State has, contrary to the international trends, decided to link financial and non-financial business support. They therefore finance their

clients but also provide a fair amount of non-financial business support to these clients (Mathibe, 2010). Although a number of critical studies evaluating business support trends in South Africa have emerged (Rogerson, 2004; DTI, 2005), the issue of the link between financial and non-financial support has received virtually no attention in the South African literature on the topic.

The paper examines the role of a parastatal organisation which, despite international advice, provided financial and non-financial business support to small enterprises. Organisationally, the discussion commences with a reflection on changing trends in business support programmes at international level. The shift towards separating financial and non-financial business support originates from these overall paradigm shifts. This is followed by a brief reflection on policy directions taken in South Africa in which the relationship between financial and non-financial business support is also touched upon. Finally, the case study and the lessons from the case study are considered and a number of concluding comments are made.

### **Changing business support paradigms**

The early 1990s saw government advice supplied by a mixture of central policy agents in the UK, with some local and regional agencies also present. However, by the late 1990s, the emphasis was far more on decentralised institutions (Bennette and Robson, 2003). For example, many European governments supported partnerships between regional development agencies, regional government offices and business-support networks that had to be improved to ensure the availability of funds to support SMEs (Shearlock, Hooper and Millington, 2001). In the process, the state's role in business support programmes has been scaled down to the provision of the necessary funds. In practice, governments delegated SME support to NGOs, private sector donors and business support organisations in order to reduce regulations, improve access to markets and create a culture that supports SMEs through education and other programmes (Bennett, Robson and Bratton, 2000; McQuaid, 2002).

In developed countries SMEs are mostly supported through indirect government assistance to support organisations. The government and the private sector established support networks, established local and regional agencies and mentoring programmes in order to support SMEs. In addition, the government subsidised the consultancies in order to be cost effective to SMEs, while at the same time decentralising the government policy on SMEs in order to reduce

regulations and to improve SMEs' access to markets (Shearlock, 2001). However, private sector business support organisations are actively engaged in support to SMEs. Through support, the private sector and business support organisations established different types of programmes in order to develop SMEs. The following list of programmes (although not exclusive), are the types of business support programmes that have been implemented in the developed world for the growth and development of SMEs: Network Advice Centres, subsidisation of consultancy days to enterprises, Network Advice Centres for broader economic development, quality marks, industry-(sectors) specific advice, start-up grants and mentoring (Easterly, 2006; World Bank, 2001; Mole and Bramley, 2006). These business support services have been able to understand SMEs' specific needs and offered these SMEs an overview of the instruments, opportunities and legislation which were relevant to their businesses across developed countries (Keeble and Wilkinson, 1999).

The developing countries adopted the developed world policy and shifted their paradigm of business support services so that they could give subsidies to SMEs in order to build the economies of their own developing countries and help alleviate poverty. During the past twenty years the global environment has seen major changes in how business support services are rendered (Bannock and Peacock, 1989). Although the major shifts in business support can be related to the overall shift to more neo-liberal policies, these shifts have also brought new insights into the process of business support services. Harper (2005) identifies six main changes in the approach to business support.

First, permanent government or donor funding was replaced by a mere start-up funding approach in order to provide sustainable business support services – this meant that business support programmes had to become financially more sustainable. The indirect implication of this need to become financially more viable was to separate financial and non-financial business support. Effectively, financial support was shifted largely to the private sector and a more specific focus on non-financial support would also mean that the two services would not subsidise each other (Bennett, Robson and Bratton, 2000). Second, and consequently, a larger range of market-driven and market-priced services delivered at a quality/price mix determined by end-users replaced the high costs of a limited range of services that used to be subsidised. Again, the pressure to be less dependent on subsidies meant that financial and non-financial support systems had to separate

their paths. Thus, less funding was available for financial business support (Committee of Donors, 2001) and whatever subsidies were still available were used for non-financial business support. Third, historically, the literature indicates that government and donors could not reach all small business but only a limited number; therefore a targeted client approach was introduced in order for the government and donors to reach clients effectively (Orford, 2005:21). The emphasis on a more targeted approach again resulted in the two services being split. This paradigm shift was also intended to place an emphasis on service providers in the private sector (see also Committee of Donors, 2001). Fourth, the emphasis on the impact of poverty changed from one of short-term benefits to one of long-term benefits to providers and clients, thus indirectly benefiting the poor through job creation. This shift also implied that poverty reduction was not seen any more as a case for which money should be allocated (see for example, Easterly, 2006 on paradigm shifts in development thinking). Rather, an emphasis on creating skills to create jobs dominated the thinking resulting in a focus on non-financial business support as opposed to financial support. Next, in line with other international trends, providing services to females also became central to most programmes. Finally, there was a significant shift towards being demand-driven in respect of the needs of enterprises. This meant that both the range of services was expanded and they were mostly delivered on a cost-recovery basis.

As already noted the above paradigm shifts all had an impact on business support policies in that it has become international policy conventional wisdom to split financial and non-financial business support services. There are probably five main reasons for this division. Firstly, splitting these services delinks the responsibility of the non-financial business advisor to ensure that the business works at all costs – mainly because there is a shared risk as a financier of the business. Secondly, it is possible to cost the financial and non-financial business support more appropriately. Thirdly, it provides an opportunity for non-financial business advisors to outsource these services to the private sector and thereby to develop a business support industry. Fourthly, it is probably easier to report (and set targets) on the progress and the relationship between non-financial and financial business support once the items are not interlinked. Finally, it seems that overall in business support programmes there is increasing evidence that business success is not only dependent on financially related factors, but that a range of social and

network factors are as important (CIBC, 2004; Walker and Brown, 2004). This reality means that much more effort should be made in respect of the non-financial support framework.

### **The South African policy environment**

This section reviews and evaluates the South African small business policy framework and the policy development towards promoting the small business economy. Although there are several policies on small business development, the emphasis in this paper is on the 1995 Framework Strategy for Small Business Support and Development in South Africa and the 2005 Integrated Small Business Strategy in South Africa. More specifically, attention is devoted to key policy objectives towards small business development, the support structure and the current business support programmes that have been put in place by the democratic government to promote small businesses. The policies are discussed by using the three phases in respect of small business development and the business support programmes in South Africa.

#### **Phase 1: Small business policy under apartheid**

During the apartheid era, there were small businesses but these were not given enough support and were not a priority of the government of the day (Adams, 2003; Rogerson, 2004). Before the democratic transition, the South African government focused mainly on large businesses and on state-owned enterprises. It was only in the early 1980s that government realised the importance of the small enterprise sector and its contribution to the economy (Rogerson, 2006). As a result, the government established the Small Business Development Corporation (SBDC) in the early 1980s as the first initiative to support small businesses – mainly a financial provider with limited non-financial business services (DTI, 2000; von Broembsen, 2003). However, the establishment of the SBDC did very little to refocus business development away from a bias towards white-owned enterprise but it probably laid the foundation for the integration of financial and non-financial business support programmes. It was only in the late 1980s and early 1990s that some attention was devoted to previously disadvantaged enterprises. The political shifts of the early 1990s contributed to increasing research interest in small business development and its contribution to the country's economy. A 1995 framework strategy for small business support and development in South Africa introduced a new strategy to promote, develop and support small businesses. The aim of the strategy was to enable the growth and sustainability of small



businesses as a means of creating a balance in the economy (away from state-owned and large enterprises) (White paper, 1995; Bloch and Kesper, 2000; Berry, von Blottnitz, Cassin, Kesper, Rajaratman and Van Seventer, 2002). The next section discusses the implementation mechanism for the development and support of small businesses in South Africa.

## **Phase 2: Policy and practices since 1995**

The post-apartheid changes refocused policy attention on promoting the country's small business economy. This refocus was necessitated by two factors. First, the inequality of income and wealth in the country had contributed to a rise in poverty that frustrated the economic growth potential of the country and, at the same time, jeopardised the sustainability of the country's environmental well-being. For example, almost half (48.5%) of the South African population currently falls below the national poverty line. This means that people are living on less than a dollar a day, and are therefore unable to save or invest any money. Income distribution remains highly unequal and this has become more problematic in recent years (Kesper, 2001; South African Human Development Report, 2003:5; Rogerson, 2005). For example, the average annual income of a South African household is estimated to be R74 589 (Stats SA, 2005/2006). Second, the current strategies and policies for achieving growth have never been more crucial, and, as a result, the gap between economic growth and employment growth is widening because poor people lack the skills to integrate into the current processes of economic growth (National Small Business Enabling Act, 1996; Phillips, 2002; Berry *et al.*, 2002; South African Human Development Report, 2003).

The change in respect of small business policy was aimed at achieving the objectives of economic growth through competitiveness, employment generation and income redistribution. The national small business development strategy was also seeking to strengthen cohesion amongst small enterprises and to level the playing field between big and small business. The government implemented business support programmes (such as Khula and Ntsika) in order to assist small business to acquire the necessary skills (Berry *et al.*, 2002). These two business support agencies have been the key business support programmes to be used by the post-apartheid government to support and develop small enterprises in South Africa (White Paper, 2005). Government decided to separate Ntsika and Khula. This brought about a separation of

financial and non-financial support to small enterprises, which extended the scope of business support agencies to provide support directly to small business (Wren and Storey, 2002). Through such separation, the South African government wanted to ensure that business support programmes would devote their undivided attention to advisory assistance to small enterprises so as to promote the dissemination of best practices and to encourage partnerships between small businesses and the government (also see McQuaid, 2002; Thurlow and Wobst, 2004). At that stage government also introduced a range of programmes providing non-financial support. Overall, evaluation of business support programmes during that phase was not all that easy (Rogerson, 2007). Programmes remained supply driven, with very little focus on markets, while government structures were not always geared towards addressing specific needs.

### **Phase 3: Policy changes and practices since 2005**

By the mid-2000s, there was increasing pressure to evaluate and rethink South African small business policy. This culminated in the Integrated Small Business Strategy of 2005. The vision reflected in the Integrated Small Business Strategy is one of making South Africa “an entrepreneurial nation” by providing reward to individuals seeking business opportunities, establishing a vibrant and competitive small enterprise sector, and by providing business support programmes to previously disadvantaged individuals (DTI, 2006). The strategy is based on three pillars of support aimed at empowering entrepreneurs in South Africa. These included promoting entrepreneurship, creating enabling environments and enhancing the competitiveness and capabilities of existing enterprises (White Paper, 2005; Mkhize, 2006). Although there are similarities with the 1995 White Paper, the new strategy re-emphasised a number of issues, such as the seven small business developmental support objectives that need strong commitment, leadership and regular monitoring and evaluation by the national, provincial and local governments (White Paper, 2005). These include the following:

- Addressing business growth and transformation within the second economy.
- Initiating a broad entrepreneurship drive and expanding education and training for small businesses.
- Substantially strengthening support for SMMEs’ access to finance.
- The further expansion of market opportunities for targeted small enterprises.

- Facilitating the systematic expansion of sector support to SMMEs.
- Creating a national information network underpinned by comprehensive research for SMMEs.
- Co-funding the establishment of minimum business infrastructure facilities.

In addition, the strategy also aims to enhance the contribution of small enterprises to the growth of the national economy. This can be done through the creation of sustainable jobs in the small-enterprise sector, and through the creation of an enabling environment for small enterprises, one with a level playing field for both big business and small enterprises that bridges the gap between urban and rural enterprises and is conducive to entrepreneurship (White Paper, 2005; Mkhize, 2006; DTI, 2006; Pretorius and Millard, 2006; Rogerson, 2006; 2007; Agupusi, 2007). This phase also saw the establishment of Seda by means of which government attempted to consolidate business support under one roof.

### **Critical evaluation of the policies**

The existing literature suggests that the outcomes of business support programmes have not been as favourable as they could have been. This section provides an overview of the existing criticism.

Firstly, very few small enterprises appear to have used business-support services due to the fact that larger enterprises are generally favoured above smaller ones. The benefiting small businesses are the ones involved in the export industry, and the ones situated in urban areas (mostly in Gauteng, KwaZulu-Natal and Western Cape provinces). It also seems that small business in the clothing and textile industries have benefited more than those in other sectors of the economy (Berry *et al.*, 2002). Secondly, the existing literature suggests that not many enterprises are actually aware of business support programmes in the country (Berry *et al.*, 2002; Rogerson, 2004). Notwithstanding the need from the informal sector for training and business knowledge, very few small enterprises were informed as to where such training could be accessed (The African Institute for Community Driven Development, 2005).

Thirdly, in terms of policy intent, Rogerson (2004) suggests that local business support centres (LBSCs) should be linked to local economic development. However, such centres have not been used efficiently. Fourthly, the existing literature raises some concerns about both the

incompetence of staff in business support programmes and their poor quality (Bloch and Daze, 2000; Berry *et al.*, 2002; Orford, 2005). For example, Berry *et al.* (2002) indicate that most business support programmes are plagued by cumbersome administrative requirements that are not favourable to service assurance. In addition, not enough basic business information has been provided to small enterprises. As a result, small enterprises have found it difficult to access business-support services (Orford, 2005). There is some preliminary evidence that Seda has made huge strides in rectifying this situation. Additionally, since the democratic transition, the lack of an appropriate monitoring and evaluation system has been one of the main problems of business support programmes (Rogerson, 2004; Orford, 2005). The inappropriateness of this M&E system is evident from factors such as poor data that are provided on the impact evaluation of business support services to small enterprises (Mathibe, 2010). The overall result is that there is limited information regarding the successes and failures of the business support programmes.

Moreover, the existing literature has indicated that business support programmes have tended to focus mainly on small enterprises in urban areas. Thus, small enterprises that receive business-support services are generally in urban areas, while small enterprises in rural areas are still neglected (Rogerson, 2004; Orford, 2005). Furthermore, in his ten-year review of post-apartheid SMME policy, Rogerson (2004) concludes that the most significant evidence of job creation has been found among medium enterprises. At the same time, job creation among microenterprises is limited, while growth in these enterprises also seems limited. Yet, Rogerson (2001:17) concludes that “the bulk of employment creation by South African SMMEs is likely to emerge from new microenterprise formations”. Lastly, some scholars have indicated that the government is too involved in business support programmes, ignoring the fact that government agencies are not sufficiently flexible to address and support small businesses (CDE, 2004; Orford, 2005). Further criticism was also raised regarding the achievements or lack of achievements in respect of empowerment objectives of these policies. More specifically, it does not seem as if these business-support initiatives have addressed the vital role of small businesses in BEE (Orford, 2005). In short, it may be concluded that, according to Manning (1996), the implementation of business-support services has been hampered by too many objectives and government-driven business support programmes which lack strategic direction.

As already noted, the establishment of Seda was one attempt to address the above concerns. Consequently, there was even a larger degree of delinking business support programmes from direct government involvement, as well as delinking financial and non-financial business support programmes. However, our case study considers an organisation that deliberately decided to link financial and non-financial business support and it is therefore important to consider possible lessons in this regard.

## **Methodology**

Two main methodological procedures were followed in order to complete this study, namely a literature review and a survey.

Firstly, an extensive international literature review was conducted on the paradigm shift in business-support services. The focus was on how business support had changed in the past two decades. Moreover, the literature review provided relevant information regarding the background of business-support services both internationally and locally. In this regard, books, journal articles, government and relevant institutional documents were consulted in respect of business support programmes.

Secondly, a quantitative method was applied and a survey was conducted. For questionnaire administration, entrepreneurs who were financed by the parastatal were used as the unit of analysis. In total, 263 entrepreneurs were sourced from the parastatal data base. Approximately 175 questionnaires were distributed in all five districts of the Free State, namely the Motheo, Lejweleputswa, Thabo-Mofutsanyana, Xariep and Fezile-Dabi districts. Data were collected by the researchers via telephonic interviews with the assistance of two fieldworkers. In total, 127 questionnaires were collected. The results of the survey were captured on a Microsoft-Excel program and then transferred to SPSS (Statistical Package for the Social Sciences) software in order to put through a basic set of descriptive calculations. Cross tabulations and comparisons of means were also used to compare the support and development of SMMEs in the Province (Wisniewski, 1994; McMillan and Schumacher, 2001)

## **The South African case study**

This section focuses explicitly on a development parastatal in the Free State that, contrary to international trends, has decided to link financial and non-financial business support. They

therefore not only finance their clients, but also provide them with a fair amount of non-financial business support (Mathibe, 2010). As they are providing both non-financial and financial business support to small enterprises (something that runs counter to basic policy approaches), a more detailed assessment of their non-financial business-support programme is required. Against this background, the problems and advantages associated with linking financial and non-financial business support are considered. Firstly, a brief background of this parastatal will be provided.

The Free State Provincial Government has long recognised that the Province has an important role to play in growing the provincial economy, thereby reducing poverty and unemployment (Mathibe, 2010). The establishment of this parastatal in 1995 and the subsequent amendment of its mandate with its focal shift to SMME development and support were informed by this recognition. Prior to the amendments to the Act, this parastatal performed a much broader economic development role. This role mainly focused on managing the industrial estates of this parastatal and consequently, not enough attention was devoted to the SMME sector. The Act was amended in order to focus on the establishment of sustainable SMMEs in the Free State (FDC Corporate Plan, 2007 – 2010). The act re-established the purpose of promoting urban and rural SMMEs in the province. Through this refocusing the parastatal gave opportunities of development to emerging SMMEs by providing loans to qualifying entrepreneurs for start-up capital, expansion capital, bridging finance and non-financial business support (FDC Annual Report, 2005/2006; 2007/2008). This parastatal sometimes takes equity in businesses that lack collateral but have the potential for growth and profitability. The corporation also provides business subsidies tailored to the needs of emerging entrepreneurs, such as rental rates. This parastatal was established to promote economic development in the Province with special emphasis on SMME growth and development aimed at targeting the sectors of agricultural beneficiation, tourism development, mineral beneficiation and chemical down-streaming in the five districts of the Free State Province.

### **Problems associated with the link**

In the first instance, five problems associated with linking financial and non-financial business support are discussed.

***Problem 1: Linking leads to an emphasis on pre-finance support and very little aftercare:***

Business support programmes focusing on finance run the risk of becoming supply driven in nature – especially programmes that are in some way or other linked to government and have an emphasis on expenditure. Our impression – from the qualitative and quantitative interviews – was that the emphasis in the process of the parastatal under consideration was on pre-finance support and that the enterprises received very little support after having received the initial finance. In fact, 67% of the respondents could report only one visit by a business advisor after having received finance from the organisation, while there had indeed been numerous pre-finance meetings. A further 90% of the respondents reported that consultants of this particular parastatal did not interact with them on a regular basis (Mathibe, 2010). It seems as if the parastatal provided finance to the entrepreneurs, yet seldom made follow-up arrangements. The danger of a system that links financial and non-financial business support is that once finance has been provided, the institution might see itself as having performed its duty and thus leaves the rest to the entrepreneurs.

***Problem 2: Quality of business plans is compromised:***

From our assessment it also seems to be a danger that the quality of business plans is compromised through a system that links financial and non-financial business support. In this framework, business plans are mainly developed to ensure loan approval. The danger therefore exists that such business plans seldom consider the long-term viability of the business. For example, the parastatal provides entrepreneurs with guidance in respect of business plans and the necessary requirements for a loan application. Entrepreneurs in the survey were, for instance, asked to rate the appropriateness of their business plans in terms of accessing international markets. In this respect, only 33,3% of the entrepreneurs who had been able to access international markets rated the appropriateness of their business plans to be high – effectively, two-thirds of the enterprises that were accessing international markets and were being financed, rated the appropriateness of their business plans as low. Two conclusions can be drawn from these results. The first conclusion suggests that the better-off enterprises (those with international markets, which also had more significant ratings for turnover and profits), found the business-plan support less attractive than did the other enterprises. It is thus not inappropriate to conclude

that the quality of the business plans is probably compromised and focused largely on access to funding. Overall, it seems as if it is difficult to access markets and also to ensure that business plans consider market access. This indicates that the parastatal is largely using a supply-driven approach to provide business support to enterprises with insufficient evidence on the market side.

***Problem 3: The lack of appropriate skills to provide an integrated service:***

The existing literature raised some concerns regarding both the incompetence of staff in business support programmes and the poor quality of their service delivery (Berry *et al.*, 2002; Bloch and Daze, 2000; Orford, 2005). Moreover, Berry *et al.* (2002) indicate that most business support programmes are plagued by cumbersome administrative requirements that are not favourable in terms of service assurance. In support of this statement, respondents reported that the consultants were incompetent in the sense that entrepreneurs would submit a loan application to one consultant and that the next time entrepreneurs came to do a follow-up they would be referred to other consultants because the previous consultants had possessed neither the advisory nor the financial skills (Mathibe, 2010). The development parastatal lacks the requisite skills simultaneously to provide financial and non-financial business support to these entrepreneurs. Instead, the said parastatal outsources these services and does not even give aftercare to ensure that the entrepreneurs are being supported, mentored and coached.

***Problem 4: The danger of concentrating on the input side of business versus concentrating on the market side:***

In respect of the financial support rendered, the available evidence suggests that the parastatal was fairly effective in creating new business assets and equipment, but seldom assisted in opening markets for small business. In order to probe this problem, the respondents were asked to indicate how they had utilised the loan amount. Most of the entrepreneurs (71.4%) indicated that they had used the loan amount for buying equipment. This is followed by 47.5% of the respondents who reported that they had used the loan amount for buying stock. Although such an approach does have some legitimacy, the absence of an output (market) approach is not always helpful towards growing enterprises. However, the aim of this parastatal in focusing on the input side rather than on the output side was to provide business skills prior to providing finance to the small businesses, yet did not take into account the fact that there should be a market available for



such small businesses to sell their products. This further confirms an earlier comment that the parastatal is largely using an input-side (or rather, a supply-driven) approach to provide business support to enterprises with insufficient evidence on the market side.

***Problem 5: The danger of providing group training to financed enterprises:***

Although very little training did take place, the idea of continuous training to enterprises that were financed was central to the planned approach. From a business-support point of view, training as opposed to mentoring and one-on-one coaching is probably more efficient in terms of time use. However, such training has the danger that it will be generic and that it is likely to be pitched inappropriately to the needs of specific entrepreneurs.

***Problem 6: There are unwarranted expectations that non-financial business support will lead to financial support:***

Although our interviews did not directly suggest that there had been unwarranted expectations that non-financial support would lead to financial support, this indeed proved to be the case once one started to unravel entrepreneurs' reasons for having approached the parastatal. In many cases the only reason for visiting the parastatal had been to access financial support. Many respondents had been patient enough to sit through the non-financial support just to ensure financial access – thinking that the latter would solve their problems.

**Advantages of the link between financial and non-financial business support**

One advantage has been identified in respect of the linking of financial and non-financial business support and this is considered to be a one-stop shop. The reason for considering it to be a one-stop shop is that one gets everything one needs – from the pre-finance support to the post-finance support. This further includes assistance in the writing of business plans and advisory services, to mention just two.

## **Conclusion and Recommendations**

This paper has investigated the relationship between financial and non-financial business support. This paper started by analysing the international trends that suggest that these services should be delinked. In fact, this has also been the main approach in South Africa since the early 1990s. However, one parastatal in the Free State decided to link these services, contrary to international advice. The investigation suggests that despite the advantages of providing a one-stop shop in respect of business-support services, there are however, a number of concerns regarding this approach. These include: a possible overemphasis on the pre-financial support as opposed to aftercare; a lack of appropriate skills to perform both functions; little attention being given to opening markets; and, an emphasis on supply-side mechanisms, such as training and the unwarranted expectation that non-financial business support will necessarily/automatically lead to financial business support. Although the literature shows that good management practice might be able to link these two services, the empirical evidence/results suggests that this will be difficult and could prove to be virtually impossible to translate into practice.

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**ENTREPRENEURIAL MOTIVES INFLUENCING  
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## ENTREPRENEURIAL MOTIVES INFLUENCING ENTREPRENEURIAL INTENT

### ABSTRACT

This paper investigates the entrepreneurial motives of 107 final year commerce students at one of the rural universities in the Limpopo Province and the relationship between these motives and the intention to start a business. The primary aim of this study was to determine whether the intention to start a business is associated with entrepreneurial motives. Data was analysed by means of descriptive statistics, Pearson correlation and t-tests. The findings reveal that the top motivators for starting a business among the respondents were need to be independent (own boss), the need to earn more money, the need to have an interesting job, the need to take advantage of one's creative talents, the need for challenge and the need to follow a role model. Entrepreneurial motives were found to be significantly correlated with the attitude towards becoming an entrepreneur and entrepreneurial intent. Prior exposure to entrepreneurship had a significant relationship with the various motives for starting a business.

**Key words: Entrepreneurial motivation, entrepreneurial intent, attitude towards becoming an entrepreneur, prior exposure to entrepreneurship.**

## INTRODUCTION

Entrepreneurship and the development of small, medium and micro enterprises (SMMEs) are widely recognised as an important source of job creation (Schjoedt and Shaver, 2007:733; Kamau-Maina, 2007:4) and a contributor to the national economic growth and development of both developed and developing countries (Small Enterprise Development Agency (Seda), 2007:6; Bosma Jones, Autio and Levie, 2007:12). Van Aardt, Van Aardt, Bezuidenhout and Mumba (2009:4) report that while there is a very low labour-absorption capacity of the South African labour market and the large number of people who are unemployed and underemployed, South Africans are generally not socialised or educated to become entrepreneurs. This is supported by the 2009 Global Entrepreneurship Monitor report that indicates that South Africa's total entrepreneurial activity (TEA) rate is 5.9% which is significantly lower than the average of 11.7% for all participating countries (Herrington, Kew and Kew, 2009:59). In addition, according to the report only 11% of South Africans have entrepreneurial intentions (Herrington *et al.*, 2009:61). Entrepreneurial intention defined as a state of mind that focuses a person's attention, experience and action toward a business concept, and is considered as the key element in understanding the new venture creation process (Bird, 1988:442).

Intentions are vital in predicting and explaining plannable human behaviour that is controlled entirely by will (Fayolle, 2004:8). Hence entrepreneurial intentions are considered to be an important source of "fuel" for entrepreneurial action (Schenkel, Azriel, Brazeal and Matthews, 2007:1). Krueger (2004:1) asserts that intentions remain the best single predictor of human behaviour, including entrepreneurial behaviour. Chell (2001:115) states that intentions work in the same way as beliefs and that the intended action is strengthened by the individuals' beliefs about the consequences of that action and their evaluation of those consequences. The decision to become an entrepreneur is regarded as an individual and personal choice (Wickham, 2006:104) that is likened to the choice of a career (Bridge, O'Neill and Cromie, 2003:380). However, choosing an entrepreneurial career as opposed to a conventional job is a choice that is based on the possibility of achieving satisfaction for a variety of economic, social, and personal development needs (Wickham, 2006:105).

Given the foregoing, Kuratko and Hodgetts (2007:132) suggest that the knowledge about new venture creation and the willingness to sustain that venture is linked with an understanding of

an entrepreneur's motivation. Hence motivation is considered to be a link between intention and action (Carsrud and Brännback, 2011:11). Barbosa, de Oliveira, Andreassi, Shiraishi, and Panwar (2008:11) found that entrepreneurial motivation influences entrepreneurial intent. Motivation entails internal factors that impel action and external factors that can act as inducements to action (Locke and Latham, 2004:388). Motivation affects three aspects of action namely; choice, effort and persistence. It also affects the acquisition of skills and abilities as well as how these skills and abilities are utilised. Shane and Venkataraman (2000:218) define entrepreneurship as the process of discovering, evaluating and exploiting opportunities to create future goods and services. Shane, Locke and Collins (2003:258) contend that it is individuals' motivations that influence these decisions, and that differences in these motivations influence which individuals pursue entrepreneurial opportunities, assemble resources, and how they execute the entrepreneurial process.

Carsrud and Brännback (2011:20) argue that despite the fact that entrepreneurial motivation is critical in order to predict and explain entrepreneurial behaviour, it remains largely under-researched. Mitchell (2004:167) contends that while a number of efforts have been taken to stimulate small business development in South Africa, there is a lack of knowledge regarding the factors that motivate individuals to embark on an entrepreneurial career. This is particularly evident with regard to the entrepreneurial motivations of the youth. Carter, Gartner, Shaver and Gatewood (2003:14) criticise the validity of research on entrepreneurial motivation in that it is based on interviews with entrepreneurs about their reasons for starting a business long after they are in business. For this reason this study examines the motives for starting a business among final year commerce students who may possibly become entrepreneurs after completion of their studies. An understanding of the motivations of final year students would help policymakers in designing relevant programmes for entrepreneurship development, especially those directed at stimulating youth entrepreneurship.

## **PROBLEM INVESTIGATED**

This study investigates the motives for starting a business among final year commerce students and determines whether these motives are associated with the attitude towards becoming an entrepreneur, the intention to start a business and prior exposure to entrepreneurship.

## **RESEARCH OBJECTIVES**

### **Primary objective**

The primary aim of this study is to determine whether the intention to start a business is associated with motives for starting a business.

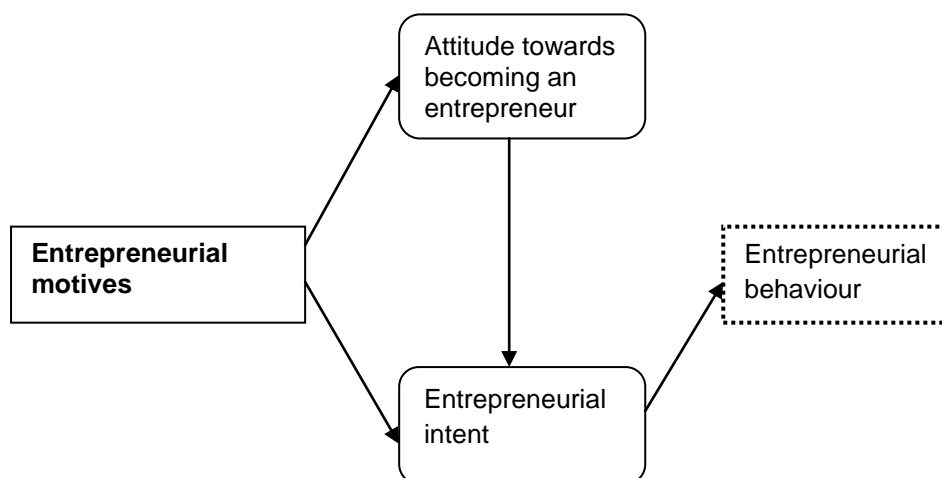
### **Secondary objectives**

- To identify the motives for starting a business among final year commerce students.
- To establish whether there is an association between the motives for starting a business and entrepreneurial intent.
- To determine the relationship between entrepreneurial motives and the attitude towards becoming an entrepreneur.
- To determine the relationship between prior exposure to entrepreneurship and the motives for starting a business.
- To determine the differences in the motives for starting a business between male and female students.

## **LITERATURE REVIEW**

This research is based on the premise that the intention to become an entrepreneur, a precursor to entrepreneurial behaviour, is a function of entrepreneurial motives and the attitude towards becoming an entrepreneur. The theoretical framework for this research draws from the entrepreneurial intent theory and entrepreneurial motivation theories as illustrated in figure 1.

Figure 1: The link between entrepreneurial motives, the attitude towards becoming an entrepreneur and entrepreneurial intent.



### **Entrepreneurial motivation theories**

Entrepreneurs state various reasons and motivations for wanting to own their own businesses (Moore, Petty, Palich and Longenecker, 2010:9). Hessels, van Gelderen and Thurik (2008:403) report that there are three types of studies on entrepreneurial motivation: 1) Studies of reasons, motives, or goals to start a business, 2) The cost-benefit types of studies that try to explain the decision to start a business and 3) Studies that investigate psychological motives.

### ***Motives/reasons for starting a business***

Wickham (2006:102) state that the two forces that drive people from the conventional labour pool to the entrepreneurial pool are categorised into pull and push factors. Those who are driven by pull factors become entrepreneurs because they have identified an opportunity in the market. They have the drive to become entrepreneurial. Pull factors are those factors that encourage people in traditional positions to leave their current jobs to become entrepreneurs (Nieman and Nieuwenhuizen, 2009:34). Push factors are those that encourage entrepreneurship due to traditional jobs being less attractive or because an individual does not have any other career choice or option. Pull factors include the profit motive, challenge and desire for independence, personal development, achievement and recognition. Push factors

involve poor pay and lack of prospects, lack of innovation and negative displacement or lack of alternatives, unemployment and job insecurity.

According to Zimmerer and Scarborough (2005:6) every potential entrepreneur considers the benefits of small business ownership as presenting opportunities to: 1) create your own destiny, 2) make a difference, 3) reach your full potential, 4) reap impressive profits, 5) contribute to society and be recognized for your efforts and 6) do what you enjoy and have fun at it. Moore *et al.*, (2010:9-11) state that the frequently cited reasons for becoming an entrepreneur include profit, independence, freedom, personal satisfaction and personal fulfilment. Kolvereid and Isaksen (2006:880) found that there is a significant relationship between the salient beliefs that include autonomy, authority, self-realisation and economic opportunity and self-employment intentions, which in turn were strongly related to actual entry into self-employment (Kolvereid and Isaksen, 2006:882).

Choo and Wong (2006:57) categorised entrepreneurial motives into intrinsic and extrinsic rewards and independence/autonomy. Extrinsic rewards consisted of the need to receive a salary based on merit, to provide a comfortable retirement, need for money, need for a job and to realise a dream. Autonomy/independence was comprised of the need to work at a location of one's choice, to determine one's own hours, to keep a large proportion of the proceeds from the business and to be one's own boss. Intrinsic rewards included the desire to have an interesting job, take advantage of one's creative talents and the need for challenge. Choo and Wong (2006:59) found that 145 entrepreneurs who participated in their study were motivated by intrinsic rewards, independence and extrinsic rewards. Hessels *et al.*, (2008:404) examined how necessity, independence and income/wealth motives relate to entrepreneurial aspirations such as innovation, job growth and export orientation using data from 29 countries that participated in the 2005 Global Entrepreneurship Monitor. They found that entrepreneurs who are motivated by independence were less likely to focus on job growth; the need to increase wealth was positively related to job growth and export orientation, whereas no relationship was found between the necessity motive and the entrepreneurial aspirations in terms of innovation and growth (Hessels *et al.*, 2008: 411).

### ***The utility-maximizing theory***

According to the utility-maximizing theory, people are motivated to become entrepreneurs because of the greater psychic utility derived from entrepreneurship (Steffens, Fitzsimmons and Douglas, 2007:2; Douglas and Fitzsimmons, 2006:1). Utility is a “product of a person’s positive attitude towards an attribute and the absolute value of that attribute” (Lévesque Shepherd and Douglas, 2002:192). The utility maximizing theory proposes that people make their decisions on the strength of their individual abilities and their attitude towards the benefits offered by entrepreneurship (Douglas and Fitzsimmons, 2006:1). However, Lévesque *et al.*, (2002:206) caution that the decision to become an entrepreneur does not only depend on appropriate utility weights but also on the opportunity and resources.

### ***The expectancy theory as a foundation for understanding the attitude towards becoming an entrepreneur and entrepreneurial intent***

Shaver and Scott (1991:37) contend that the emergence of new ventures is a result of deliberate choices made by individuals, which are a function of the expectancy-value attitude (Bagozzi, 1981:618). Previous research indicates that attitudes affect entrepreneurial behaviour through their impact on intentions (Bagozzi, 1981:623; Krueger *et al.*, 2000:425). Souitaris, Zerbinati and Al-Laham (2007:582) observe that the intention to become an entrepreneur is significantly correlated to the attitude towards entrepreneurship. Ajzen and Cote (2008:290) report that beliefs as a foundation of attitudes are embedded in the expectancy-value model. In the expectancy-value model people form beliefs about an object by associating it with certain attributes. People tend to like objects that they believe have desirable outcomes and form unfavourable attitudes towards objects associated with undesirable outcomes (Ajzen and Cote, 2008:291).

Vroom’s 1964 expectancy theory suggests that people are motivated to behave in ways that produce desired combinations of expected outcomes (Kreitner and Kinicki, 2008:222). In Vroom’s model an individual chooses among alternative behaviours by considering the behaviour that leads to the most desirable outcomes (Segal, Borgia and Schoenfeld, 2005:44). Ajzen and Fishbein (2005:193) refer to considerations regarding the likely consequences of performing the behaviour as behavioural beliefs which are similar to outcome expectancies. When making the decision to engage or not to engage in a certain behaviour people compare

the advantages of performing the behaviour with the disadvantages of doing so. If the advantages are greater than the perceived disadvantages people are more likely to form a favourable attitude towards that behaviour. Although Vroom's expectancy theory was originally aimed specifically at work motivation, researchers in the field of entrepreneurship have recently started to use it in an attempt to understand entrepreneurial motivation (for example Manolova, Brush and Edelman, 2008; Segal *et al.*, 2005; Gatewood, Shaver, Powers and Gartner, 2002).

Using the expectancy framework Segal *et al.*, (2005:50-51) firstly, hypothesised that the desirability of self-employment is a function of the importance of desired outcomes and the probability of attaining these outcomes through self-employment. Secondly, the desirability for working for others is derived from the importance of desired outcomes and the probability of attaining these outcomes through working for others. Segal *et al.*, (2005:51) found that there is a positive relationship between the net desirability for self-employment and the intention to become an entrepreneur. The net desirability of self-employment is obtained by subtracting desirability of working for others from desirability of self-employment.

Manolova *et al.*, (2008:2) applied an expectancy framework to examine the differences in the motivations to start a business between men and women using a sample of 441 entrepreneurs in the United States. Manolova *et al.*, (2008:17) found that entrepreneurial expectancy and entrepreneurial intensity were positively and significantly associated with starting a business and starting a business was positively and significantly associated with desired outcomes or reasons/motivations for starting a business. Entrepreneurial expectancy is defined as "the belief that a particular action will result in particular performance such as starting a business" (Manolova *et al.*, 2008:27). Entrepreneurial intensity refers to the focus or commitment of an entrepreneur to the start-up endeavour. Their results revealed that men and women were significantly different in the motivations for starting a business (Manolova *et al.*, 2008:19). Men were motivated by self-realisation, financial success and autonomy while women were motivated by self-realisation, status, financial success and autonomy. Manolova *et al.*, (2008:17) found a strong support for the expectancy model as an approach to understanding entrepreneurial motivation to start a new venture. In another similar study that was based on the expectancy theory, Edelman, Brush, Manolova and Greene (2010:184) found that entrepreneurial expectancy was positively and significantly associated with starting a business and that starting a business was positively and significantly associated with the



desired outcomes from the entrepreneurial process such as self-realisation, financial success, recognition, roles, innovation and independence.

### **Entrepreneurial intent models**

According to Segal *et al.*, (2005:45-47) entrepreneurial intent models such as the theory of reasoned action, the Shapero and Sokol's model of entrepreneurial event (SEE model) and the theory of planned behaviour (TPB) fall within the current process models of entrepreneurial motivation. The TPB and the SEE models are explained below.

#### ***The theory of planned behaviour***

The TPB originates from the theory of reasoned action developed by Ajzen and Fishbein in 1980 (Ajzen and Cote, 2008:301) and is regarded as the most influential and popular framework for the prediction of human behaviour. The TPB suggests that the most important immediate determinant of action is a person's intention to perform or not to perform that action (Ajzen, 2005:117). According to the TPB (Ajzen, 1991:181), intentions capture the motivational factors that influence the behaviour and they indicate how hard people are willing to try as well as how much effort they are planning to exert in performing the behaviour. When the intention is stronger the more likely is its performance. In this theory entrepreneurial intentions can be predicted with high accuracy from the attitude towards the behaviour, subjective norms and perceived behavioural control (Ajzen, 2005:118). The three conceptually independent determinants of intentions are defined as follows: Attitude towards the behaviour refers to the degree to which a person has a favourable or unfavourable evaluation or appraisal of the behaviour in question. Perceived behavioural control refers to the sense of self-efficacy or ability to perform the behaviour (Ajzen, 2005:118; Ajzen and Cote, 2008:301). Subjective norms refer to the perceived social pressure to perform or not to perform the behaviour. Ajzen (2005:123) argues that people develop attitudes from the beliefs they hold about the consequences of performing the behaviour. The belief strength is multiplied by outcome evaluation and the resulting sum is used to estimate the attitude towards the behaviour.

### ***Shapero and Sokol's model of entrepreneurial event***

The SEE model suggests that entrepreneurial intentions can be predicted from perceived desirability, perceived feasibility and propensity to act (Krueger, Reilly and Carsrud, 2000:418). Perceived desirability is the personal attractiveness of starting a business. Perceived feasibility is the degree to which one feels personally capable of starting a business. Propensity to act is the personal predisposition to act on one's decisions (Krueger *et al.*, 2000:419). From this model it can be deduced that individuals form intentions to become entrepreneurs when they perceive that it is desirable and feasible to do so.

It can be deduced from the SEE and the TPB models that in order for individuals to form intentions to engage in a particular behaviour such behaviour should be perceived as attractive and feasible. This means that by engaging in the behaviour they should be able to realise desirable outcomes and should also feel capable of performing it. From the two entrepreneurial intent models Krueger and Brazeal (1994:96) noted that perceived desirability subsumes the attitude towards the behaviour and social norms in Ajzen's TPB and perceived feasibility relates to self-efficacy in Bandura's (1986) social learning theory and perceived behavioural control in Ajzen's TPB.

### **The relationship between prior entrepreneurial exposure/experience and the motives for starting a business**

Previous research indicates that prior entrepreneurial exposure/experience has a positive effect on perceived desirability and feasibility of entrepreneurship which in turn mediated the relationship between entrepreneurial experience and the intention of starting a business (Orouch, 2006:24-25). In addition, Schenkel *et al.*, (2007:6) reports the existence of a strong relationship between prior start-up experience and entrepreneurial intentions. Prior exposure to entrepreneurship is conceptualised in terms of the quantity (breadth) and the perceived quality (whether it is positive or negative) of that exposure (Krueger, 1993:10). Krueger argues that sources of exposure to entrepreneurship may include one's family business, a business started by another relative or friend, working in someone else's small business, and having started one's own business. Entrepreneurial role models were found to be having a significant influence on an individual's intention to become an entrepreneur (Van Auken, Stephens, Fry and Silva, 2005:7; Driga, Lafuente and Vaillant, 2005:10-11). Driga *et al.*,

(2005:5) define role models as “persons that by their attitudes, behaviours and actions establish the desirability and credibility of a choice for an individual”. The breadth of exposure to entrepreneurship was found to be positively associated with perceived feasibility while the positiveness of that exposure was positively associated with perceived desirability (Krueger, 1993:14). Similarly, Peterman and Kennedy (2003:136) found that there is a positive relationship between perceived desirability and the positiveness of a person’s entrepreneurial experience. From these findings it can be argued that the breadth and positiveness of prior entrepreneurial exposure/experience (be it in the form of having tried to start one’s own business, currently running one’s own business and having entrepreneurial role models) would be related to the motives for starting a business.

## **RESEARCH METHODOLOGY**

### **Research design**

This study was carried out by means of a survey research. The reason for the choice of a survey was to obtain comparable data from the chosen sample so that similarities and differences can be found. Surveys are relatively efficient ways for collecting large amounts of data (Gravetter and Forzano, 2006:331) and they are used in studies that use individuals as units of analysis (Babbie and Mouton, 2004:232).

### **Population and sampling procedures**

The population for this study was final year students enrolled for the commerce degrees at the University of Venda in the Limpopo Province. This group of students was chosen because they were suitable for studying entrepreneurial intentions and the motives for starting a business as they are facing important career decisions on completion of their studies of which entrepreneurship could be one of them. This is in line with other similar studies such as (Krueger *et al.*, 2000:420; Liñán, Urbano and Guerrero, 2007:5; Liñán and Chen, 2009:602). From the abovementioned population a sample of 107 students who were registered for the entrepreneurship module was obtained using convenience and purposive sampling methods. Purposive sampling involves choosing people for a specific purpose (Leedy and Ormrod, 2010:212; Maree, 2010:178). When using convenience sampling the researcher selects population elements because they are easily and conveniently available (Maree, 2010:177).

While this sample was easily obtained and consisted of people who had to make decisions regarding their future careers upon completion of their studies, it is not a representative sample of all final year commerce students.

## **Data collection instrument**

### *Questionnaire design and measures*

The instrument for data collection as shown in table 1 was designed based on structured and validated questionnaires that were used in previous studies on entrepreneurial motivation (Choo and Wong, 2006:55; Carter *et al.*, 2003:26-27) and entrepreneurial intent (Liñán *et al.*, 2007:9; Liñán and Chen, 2009:612-613). Questionnaires consisted of questions that were based on the seven-point Likert scale (1=Strongly disagree and 7=Strongly agree) and nominal scales. Likert scale type questions were used for entrepreneurial intent, attitude towards becoming an entrepreneur, entrepreneurial motives and two questions on prior exposure to entrepreneurship whereas nominal scales were used for gender (1=Male and 2=Female) and additional two questions on prior exposure to entrepreneurship (1=Yes and 2=No). This study was concerned with the relationship between the attitude towards becoming an entrepreneur and entrepreneurial intent and between entrepreneurial motives and the attitude towards becoming an entrepreneur. For this reason the dependent variables were entrepreneurial intent and the attitude towards becoming an entrepreneur while the independent variable was entrepreneurial motives. The reliability of the measuring instrument was tested by means of Cronbach's alpha. Garson (2009:2) states that the cut-off criteria for internal consistency reliability is 0.60 for exploratory research and that alpha of at least 0.70 or higher is required to retain an item in an adequate scale. The Cronbach's alpha scores of the data collection instrument were higher than 0.60, meaning that it was a reliable tool for use in this research. To ensure reliability of the results the questionnaire was also pre-tested on five students from the targeted population.

**Table 1: Measures of entrepreneurial intent, attitude towards becoming an entrepreneur, entrepreneurial motives and prior exposure to entrepreneurship**

Variable	Items	Cronbach's alpha
Entrepreneurial intent	<ol style="list-style-type: none"> <li>1. I am ready to do anything to be an entrepreneur (READYENTRE)</li> <li>2. My professional goal is to be an entrepreneur (PROGOALENT)</li> <li>3. I will make every effort to start and run my own business (EFFORTSTAR)</li> <li>4. I am determined to create a business venture in the future (DETCREABUS)</li> </ol>	.726
Attitude towards becoming an entrepreneur	<ol style="list-style-type: none"> <li>1. Being an entrepreneur implies more advantages than disadvantages to me (ENTREADVAN)</li> <li>2. A career as an entrepreneur is totally attractive to me (ENTCARATTR)</li> <li>3. If I had the opportunity and resources, I would like to start a business (OPPRESSTAR)</li> <li>4. Amongst various options, I would rather be an entrepreneur (ENTOPTION)</li> <li>5. Being an entrepreneur would give me great satisfaction (ENTREPSAT)</li> </ol>	.727
Entrepreneurial motives	<ol style="list-style-type: none"> <li>1. To challenge myself (CHALLENGE)</li> <li>2. To take advantage of my creative talents (CREATIVITY)</li> <li>3. To be my own boss (OWN BOSS)</li> <li>4. To have an interesting job (INTERESTING JOB)</li> <li>5. To earn more money (MONEY)</li> <li>6. To take advantage of a market opportunity (MARKET OPPORTUNITY)</li> <li>7. The need for a job (NEEDED A JOB)</li> <li>8. To increase my status/prestige (STATUS)</li> <li>9. To follow the example of a person that I admire (ROLE MODEL)</li> <li>10. To maintain a family tradition (FAMILY TRADITION)</li> </ol>	.781
Prior exposure to entrepreneurship	<ol style="list-style-type: none"> <li>1. I personally know someone who is an entrepreneur</li> <li>2. I know successful entrepreneurs in my community</li> </ol>	.610

### *Distribution of questionnaires*

Questionnaires were distributed to the students during their lectures. Students were asked to complete the questionnaires in the presence of the researcher and return them immediately after completion. The respondents were informed about the purpose of the research and were asked to participate voluntarily in the study by completing questionnaires. They were also assured of complete anonymity. It took at least 15 minutes to complete the questionnaires.

## Data analysis

Data was analysed by means of the SPSS using descriptive statistics, Pearson correlation and t-tests. Descriptive statistics were used for the frequencies of the sample. Pearson correlation was used to determine the strength of the association between entrepreneurial motives of the respondents and their intention to start a business. This technique was also used to determine the relationship between entrepreneurial motives and the attitude of the respondents towards becoming an entrepreneur and the relationship between prior exposure to entrepreneurship and the respondents' motives for starting a business. T-tests were used to test gender differences in the motives for starting a business.

## RESULTS

### Descriptive statistics of the sample characteristics

This study involved 107 final year commerce students who were registered for the entrepreneurship module. Of the 107 respondents 59.8% were female and 40.2% were male, as shown in table 2. In terms of age 28% were in the age category between 18 and 21 years, 57.9% of the respondents were in the age category between 22 and 25 years, 9.3% were in the age category between 26 and 30 years, 1.9% were in the age category between 31 and 35 years, while 2.8% were above 36 years. These statistics mean that about 97.2% of the respondents were falling in the youth category. In terms of prior exposure to entrepreneurship for the two questions that were based on a nominal scale, 11.2% of the respondents have tried to start a business before while 43% of the respondents were coming from the families with members who are running businesses, as shown in table 3.

**Table 2: Gender and age of the respondents**

Gender of the respondents			Age of respondents		
Gender	N	Percentage (%)	Age	N	Percentage (%)
Male	43	40.2	18-21	30	28.0
			22-25	62	57.9
			26-30	10	9.3
Female	64	59.8	31-35	2	1.9
			36+	3	2.8
<b>Total</b>	<b>107</b>	<b>100</b>	<b>Total</b>	<b>107</b>	<b>100</b>

**Table 3: Respondents' prior exposure to entrepreneurship**

Prior start-up experience			Family members run businesses		
Have tried to start a business before	N	Percentage (%)	Family members run businesses	N	Percentage (%)
Yes	12	11.2	Yes	46	43
No	95	88.8	No	61	57
<b>TOTAL</b>	<b>107</b>	<b>100</b>	<b>TOTAL</b>	<b>107</b>	<b>100</b>

### Entrepreneurial motives of the respondents

From the results in table 4 it is evident that the top motivators (based on strongly agree scores) for the respondents were the need to be independent (own boss) (71%), followed by the need to earn more money (65.4%), the need to have an interesting job (61.7%), the need to take advantage of one's creative talents (60.8%), the need for challenge (58.9%) and the need to follow a role model (58.9%). It can be deduced from these findings that respondents were driven by both intrinsic and extrinsic rewards and the need for independence. The results indicate that respondents were pulled rather than pushed to start a business.

**Table 4: Entrepreneurial motives of the respondents**

Entrepreneurial motives	N	Percentage (%)							
		*TD	*SD	*D	*N	*A	*SA	*TA	*TOTAL AGREED
Challenge	107	4.7	0	1.9	9.3	9.4	15.9	58.9	84.2
Creativity	107	5.6	0.9	5.6	3.7	12.2	11.2	60.8	84.2
*Own boss	107	2.8	0	2.8	5.6	5.6	11.2	71.0	87.8
*Interesting job	107	9.3	2.8	0	3.7	9.4	11.2	61.7	82.3
Money	107	6.5	3.7	2.8	3.7	7.5	10.3	65.4	83.2
*Market opportunity	107	5.6	2.8	0	6.5	9.3	18.7	54.2	82.2
*Needed a job	107	15.0	1.9	7.5	14.0	8.4	12.2	39.3	59.9
*Status	107	10.3	4.7	3.7	15.9	8.4	6.5	49.5	64.4
*Role model	107	6.5	3.7	4.7	8.4	8.4	8.4	58.9	75.7
*Family tradition	107	17.8	5.6	1.9	9.3	11.2	8.4	44.9	64.5

\* Some of the percentages of the entrepreneurial motives do not add up to 100% owing to missing data. \*TD=Totally disagree, SD=Strongly disagree, D=Disagree, N=Neutral, A=Agree, SA=Strongly agree & TA=Totally agree

### The relationship between entrepreneurial motives and the attitude towards becoming an entrepreneur

All the 10 entrepreneurial motives as illustrated in table 5 were found to be significantly correlated at the 1% and 5% level of significance with the attitude of the respondents towards becoming an entrepreneur. However, this relationship varied from one entrepreneurial motive to another. The need for challenge and the need to take advantage of one's creative talents were significantly correlated with three out of five attitude factors. The need to be one's own boss and the need to take advantage of a market opportunity had a significant relationship with two of the five attitude factors whereas the need to have an interesting job, the need to earn more money, the need for a job, the need for status, the need to follow a role model and family tradition were significantly correlated with only one attitude factor. From these results it can be deduced that the 10 entrepreneurial motives had significant relationship with the respondents' attitude towards becoming an entrepreneur in terms of their beliefs that "a career as an entrepreneur is totally attractive to them"; "if they had the opportunity and resources, they would like to start a business"; and "being an entrepreneur would give them great satisfaction".

**Table 5: Entrepreneurial motives and the attitude towards becoming an entrepreneur**

Entrepreneurial motives	Attitude towards becoming an entrepreneur	r	p
CHALLENGE	ENTCARATTR	0.33	0.000*
	OPPRESSTAR	0.32	0.001*
	ENTREPSAT	0.28	0.003*
CREATIVITY	ENTCARATTR	0.19	0.045**
	OPPRESSTAR	0.37	0.000*
	ENTREPSAT	0.33	0.000*
OWN BOSS	ENTCARATTR	0.40	0.000*
	ENTREPSAT	0.29	0.003*
INTERESTING JOB	ENTCARATTR	0.21	0.031**
MONEY	ENTREPSAT	0.23	0.017**
MARKET OPPORTUNITY	ENTCARATTR	0.32	0.001*
	ENTREPSAT	0.27	0.005*
NEEDED A JOB	ENTREPSAT	0.22	0.026**
STATUS	ENTCARATTR	0.22	0.022**
ROLE MODEL	ENTCARATTR	0.25	0.010**
FAMILY TRADITION	ENTCARATTR	0.25	0.011**

\*One percent level \*\* Five percent level



### The relationship between entrepreneurial motives and the intention of starting a business

The results in table 6 reveal that a significant correlation at the 1% and 5% level of significance exists between entrepreneurial motives and the respondents' intention of the respondents to start a business. Of the 10 entrepreneurial motives only the need for a job was not significantly correlated with the intention of starting a business. Again it is evident that the need for challenge and the need to take advantage of one's creative talents had a significant correlation with all the four entrepreneurial intent factors whereas the need to be one's own boss was significantly correlated with two of the four entrepreneurial intent factors. The need to have an interesting job, the need to earn more money, the need for status, the need to follow a role model and family tradition were significantly correlated with only one entrepreneurial intent factor.

**Table 6: Entrepreneurial motives and entrepreneurial intent**

Entrepreneurial motives	Entrepreneurial intent	r	p
CHALLENGE	READYENTRE	0.21	0.028**
	PROGOALENT	0.33	0.001*
	EFFORTSTAR	0.37	0.000*
	DETCREABUS	0.25	0.010**
CREATIVITY	READYENTRE	0.29	0.002*
	PROGOALENT	0.26	0.007*
	EFFORTSTAR	0.27	0.005*
	DETCREABUS	0.26	0.006*
OWN BOSS	PROGOALENT	0.26	0.007*
	EFFORTSTAR	0.23	0.020**
INTERESTING JOB	EFFORTSTAR	0.29	0.002*
MONEY	EFFORTSTAR	0.31	0.001*
MARKET OPPORTUNITY	EFFORTSTAR	0.30	0.002*
STATUS	EFFORTSTAR	0.20	0.040**
ROLE MODEL	EFFORTSTAR	0.23	0.016**
FAMILY TRADITION	READYENTRE	0.19	0.049**

\*One percent level \*\* Five percent level

### Attitude towards becoming an entrepreneur and entrepreneurial intent

The findings indicate that the attitude towards becoming an entrepreneur is significantly correlated with entrepreneurial intent at the 1% and 5% level of significance. All the five factors measuring the attitude towards becoming an entrepreneur were significantly correlated with all the four entrepreneurial intent factors, as illustrated in table 7.

**Table 7: The relationship between attitude towards becoming an entrepreneur and entrepreneurial intent**

<b>Attitude towards becoming an entrepreneur</b>	<b>Entrepreneurial intent</b>	<b>r</b>	<b>p</b>
ENTREADVAN	READYENTRE	0.33	0.000*
	PROGOALENT	0.34	0.000*
	EFFORTSTAR	0.27	0.000*
	DETCREABUS	0.35	0.000*
ENTCARATTR	READYENTRE	0.54	0.000*
	PROGOALENT	0.40	0.000*
	EFFORTSTAR	0.51	0.000*
	DETCREABUS	0.34	0.000*
OPPRESSTAR	READYENTRE	0.39	0.000*
	PROGOALENT	0.29	0.000*
	EFFORTSTAR	0.29	0.000*
	DETCREABUS	0.54	0.000*
ENTOPTION	READYENTRE	0.37	0.000*
	PROGOALENT	0.53	0.000*
	EFFORTSTAR	0.34	0.000*
	DETCREABUS	0.33	0.000*
ENTREPSAT	READYENTRE	0.46	0.000*
	PROGOALENT	0.46	0.000*
	EFFORTSTAR	0.48	0.000*
	DETCREABUS	0.47	0.000*

\*One percent level \*\* Five percent level

### **The relationship between prior exposure to entrepreneurship and entrepreneurial motives**

The results in table 8 indicate that the respondents' prior exposure to entrepreneurship is significantly correlated at the 1% and 5% level of significance with their motives for starting a business. A significant positive relationship was found between being someone who is currently running a business and the need to earn more money. Despite being negative, having family members who are running businesses was significantly correlated with the need to follow a role model and family tradition. Having tried to start a business was significantly negatively correlated with the need to be one's own boss. A significant positive relationship was found between having personal knowledge of someone who is an entrepreneur and the need to be one's boss, the need to have an interesting job, and the need to follow a family tradition. It is worth noting that having family members who are running businesses was measured using a nominal scale while having personal knowledge of someone who is an entrepreneur was measured using a Likert scale. As a result, the findings for the

relationship between having family members who are running businesses and the need to follow a family tradition contradict those of the relationship between having personal knowledge of someone who is an entrepreneur and the need to follow a family tradition. Having personal knowledge of successful entrepreneurs in the community was significantly positively correlated with the need for challenge, the need to take advantage of one's creative talents, the need to be one's own boss and the need to follow a role model. From these results it is evident that seven of the 10 entrepreneurial motives varied in terms of their relationship with the five sources of prior exposure to entrepreneurship.

**Table 8: Prior exposure to entrepreneurship and entrepreneurial motives**

<b>Prior exposure to entrepreneurship</b>	<b>Entrepreneurial motives</b>	<b>r</b>	<b>p</b>
CURRENTLY A RUN BUSINESS	MONEY	0.20	0.040**
FAMILY RUN BUSINESS	ROLE MODEL	-0.26	0.007*
	FAMILY TRADITION	-0.26	0.007*
TRIED TO START A BUSINESS	OWN BOSS	-0.24	0.015**
PERSONALLY KNOW AN ENTREPRENEUR	OWN BOSS	0.22	0.023**
	INTERESTING JOB	0.21	0.028**
	FAMILY TRADITION	0.25	0.009*
KNOW SUCCESSFUL ENTREPRENEURS IN THE COMMUNITY	CHALLENGE	0.42	0.000*
	CREATIVITY	0.24	0.013**
	OWN BOSS	0.22	0.022**
	ROLE MODEL	0.24	0.015**

\*One percent level \*\* Five percent level

### **Gender differences in the motives for starting a business**

The results of the t-test for gender differences in the motives for starting a business were not significant. The means of male and female respondents did not differ significantly.

### **LIMITATIONS**

This study was only concerned with determining whether significant relationships exist between entrepreneurial motives, the attitude towards becoming an entrepreneur, entrepreneurial intent; whether the attitude towards becoming an entrepreneur is significantly related to the intention to start a business; and whether prior exposure to entrepreneurship is

significantly related to the motives for starting a business. The study did not test the relationship between entrepreneurial motives and the actual act of starting a business. Although the results shed light with regard to the entrepreneurial motives of final year students, they may not be generalised to all students owing to the use of convenience sampling.

## CONCLUSIONS

The purpose of this study was to identify the entrepreneurial motives that influence the intention to start a business and examine the relationship between these motives and the attitude to become an entrepreneur. In addition the study determined relationship between prior exposure to entrepreneurship and the motives for starting a business and whether gender differences exist in entrepreneurial motives. The respondents were strongly motivated (in their order from the highest percentage to the lowest) by the need to be independent (own boss), the need to earn more money, the need to have an interesting job, the need to take advantage of one's creative talents, the need for challenge and the need to follow a role model. The respondents were rather pulled into entrepreneurship than pushed into it. They wanted to be independent and achieve both intrinsic and extrinsic rewards.

The results indicate that a significant relationship exists between the motives for starting a business, the attitude towards becoming an entrepreneur and the intention to start a business. The respondents who had different forms of prior exposure to entrepreneurship varied in terms of their motives for starting a business. No significant gender differences were found in the motives for starting a business. These findings support those of Kolvereid and Isaksen (2006:880) in which they found that entrepreneurial motives that they called salient beliefs are significantly related to self-employment intentions.

Given the relationship between entrepreneurial motives and the attitude towards becoming an entrepreneur, the conclusion is that attitude towards becoming an entrepreneur is a function of the importance of the outcomes derived from entrepreneurship. This is consistent with Segal *et al.*, (2005:50-51) and entrepreneurial intent theory that suggests that the attitudes towards the behaviour are formed from the beliefs that individuals hold about the consequences of performing the behaviour (Ajzen, 2005:123). In line with the entrepreneurial intent theory (Souitaris *et al.*, 2007:582; Ajzen, 2005:118; Krueger *et al.*, 2000:418) the

attitude towards becoming an entrepreneur was found to be significantly correlated with the intention to start a business. The results further highlight the importance of prior exposure to entrepreneurship as pointed out in previous research (Krueger, 1993:14; Peterman and Kennedy, 2003:136; Van Auken *et al.*, 2005:7; Driga *et al.*, 2005:10-11).

## **IMPLICATIONS FOR MANAGERS/RECOMMENDATIONS**

The importance of this study lies in consistently low TEA rates that have been reported in the annual South African Global Entrepreneurship Monitor reports since 2001. Knowledge of the motives that influence individuals to start a business is vital in South Africa in order to develop targeted interventions aimed at encouraging people to become entrepreneurs. The increased number of people with the motivation to start a business would contribute to improved TEA rates provided that these people ultimately take the decision to start their own businesses.

Entrepreneurship is an intentionally planned activity. Improved TEA rates therefore depend on how individuals in the society perceive entrepreneurship. As entrepreneurial intent theory suggests, entrepreneurship should be perceived as a desirable and feasible career option. The results of this study shed light in understanding entrepreneurial motivations of the youth since the majority of the respondents were the youth. The implications of these results to policymakers dealing with interventions to promote youth entrepreneurship are their interventions should be integrated to focus on both the desirability and feasibility of entrepreneurship. This means that individuals should not only be motivated to start a business but it should be possible for them to start a business by making resources available.

In order to increase perceptions of desirability/attractiveness of entrepreneurship it is vital to recognise and celebrate successful entrepreneurs. Entrepreneurship educators may assist these efforts by using entrepreneurs as guest lecturers and case studies portraying the benefits of entrepreneurship. Additionally, using new venture creation as a learning tool and allowing students to do internships in SMMEs may be valuable sources of exposure to entrepreneurship.

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**ENTREPRENEURIAL ATTRIBUTES OF SOUTH AFRICAN  
STUDENTS: A DEMOGRAPHIC PERSPECTIVE**

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## ENTREPRENEURIAL ATTRIBUTES OF SOUTH AFRICAN STUDENTS: A DEMOGRAPHIC PERSPECTIVE

### ABSTRACT

Entrepreneurial attributes possessed by individuals vary depending on their demographic profiles. In order to gain an understanding of the underlying factors contributing to the low levels of entrepreneurial activity in South Africa, this study focuses on whether individuals possessing certain demographic attributes are more likely to possess entrepreneurial attributes than those who do not.

The sample consisted of undergraduate Business students from three South African Universities. Respondents were identified by means of convenience sampling. The statistical analysis was undertaken on 447 usable questionnaires. An exploratory factor analysis was undertaken and Cronbach-alpha coefficients were calculated to assess the validity and reliability of the measuring instrument. In order to establish whether significant differences existed with regard to the level of development of the entrepreneurial attributes investigated and selected demographic variables, a multivariate (MANOVA) and a univariate analysis of variance (ANOVA) were conducted.

The empirical results of this study showed significant differences in mean scores between the different *Gender* and *Ethnic* groups for the attributes *Commitment*, *Continuous learning*, *Risk-taking* and *Knowledge seeking*.

**Keywords:** Entrepreneurship, Entrepreneurial attributes, Entrepreneurship education, Demographic factors, Gender, Ethnicity.

## INTRODUCTION AND PROBLEM STATEMENT

Kiggundu (2002) asserts that various demographic variables appear to distinguish between successful and less successful entrepreneurs. However, Ramana, Raman and Aryasri (2009: 113) contend that little research exists on the influence of demographic factors on entrepreneurial attributes and on entrepreneurial success. According to Drost (2010: 28), understanding what drives entrepreneurship remains among the most important questions being asked in management research. Consequently, investigating differences in the demographics attributes of entrepreneurs and non-entrepreneurs is a growing area of interest in the field of entrepreneurship (Ramana *et al.*, 2009: 112).

It is while they are still students that potential entrepreneurs should be developed (Chen and Lai, 2010) and educators are at a disadvantage if they fail to understand the factors that stimulate or retard entrepreneurial activity (Tajeddini and Mueller, 2009). By identifying which demographic groups are more or less likely to possess entrepreneurial attributes, groups with shortcomings can be identified and targeted for both didactical and policy interventions. Urban (2010) contends that educators must recognise that a “one-size-fits-all” approach to the training and development of future entrepreneurs may not be appropriate, and stresses that programming should be tailored and sensitised for specific groups. Educators of future entrepreneurs may gain from a clearer understanding of the role of demographics variables on entrepreneurial behaviour.

Against this background it is of importance and interest to entrepreneurial educators in South Africa to determine whether certain entrepreneurial attributes are more developed among students with specific demographic profiles. The primary objective of this study was thus to investigate the influence of selected demographic factors (i.e. *Gender, Ethnicity, Level of study, University attended* and *Self-employment status of parents*) on the levels of development of entrepreneurial attributes among undergraduate Business students in South Africa. More specifically, the objective was to establish whether significant relationships existed between selected demographic variables and the level of development of entrepreneurial attributes among undergraduate Business students at the participating universities.

“Entrepreneurial attributes” refer to personality traits, characteristics and skills commonly

associated with entrepreneurs, and “undergraduate business students” refer to students completing Business-related modules at undergraduate levels. The demographic variables of interest in this study are *Gender*, *Ethnicity*, *Level of study* (age), *University attended* (geographic location) and *Self-employment status of parents* (role models).

## LITERATURE OVERVIEW

The entrepreneurship literature identifies numerous attributes (traits, characteristics and skills) as being associated with entrepreneurial behaviour and entrepreneurial success (Deakins and Freel, 2009; Ramana, Aryasri and Nagayya, 2008; Mahadea, 2001; Entrialgo, Fernandez and Vazquez, 2000). Although an abundance of literature exists attempting to identify and define the attributes of entrepreneurs (Soetanto *et al.*, 2010: 24), those most commonly cited are the *need to achieve*, *risk-taking*, *tolerance for ambiguity*, *locus of control* and *creativity and innovation* (Chen and Lai, 2010; Deakins and Freel, 2009; Venter, Urban and Rwigema, 2008; Entrialgo *et al.*, 2000).

Attributes such as hard work, money orientation and optimism, as well as commitment, perseverance and flexibility (Ndubisi, 2008), maintaining good interpersonal relations, and team-building (Kumara and Sahasranam, 2009) have also been associated with entrepreneurial personalities. Other attributes identified include the need for autonomy, being visionary and having self-efficacy (Deakins and Freel, 2009), as well as having communication abilities and being energetic, self-confident and responsible (Kakkonen, 2010). Studies show that students with an inclination for entrepreneurship are more innovative, have more incentives for success, have more inner control and have a stronger tendency to take risks than students who have no inclination for entrepreneurship (Gurol and Atsan, 2006). Similarly, Ramana *et al.*, (2008) have found that tolerance for ambiguity and personal selling have a positive effect on entrepreneurial success. It is these entrepreneurial attributes that distinguish entrepreneurs from others, and individuals who possess these attributes may be more likely to start entrepreneurial ventures (Cromie, 2000; Raab *et al.*, 2005). Similarly, Chen and Lai (2010) contend that personal attributes have been identified as key components in venture creation

Although several attributes, traits, characteristics and skills have been identified in the entrepreneurship literature as being associated with successful entrepreneurs, the present

study focuses on the attributes identified by Van Eeden, Louw and Venter (2005). The attributes investigated in this study, together with supporting references, are summarised in Table 1.

**TABLE 1**  
**LITERATURE PERTAINING TO ENTREPRENEURIAL ATTRIBUTES**

<b>ENTREPRENEURIAL ATTRIBUTES</b>	<b>REFERENCES</b>
<b>Planning and perseverance</b>	Scarborough, 2011; Barringer and Ireland, 2010; Timmons and Spinelli, 2009; Scarborough, Wilson and Zimmerer, 2009; Nieman and Nieuwenhuizen, 2009; Nieman and Bennet, 2005; Bowler, 1995.
<b>Persuasion and networking</b>	Mugshot, 2010; Timmons and Spinelli, 2009; North, 1995.
<b>Communication ability</b>	Marvin and Jones, 2010; Nitikina, 2007; Marx, Van Rooyen, Bosch and Reynders, 1998.
<b>Commitment</b>	Calvasina, Calvasina and Calvasina, 2010; Timmons and Spinelli, 2009; Marx <i>et al.</i> , 1998.
<b>Overcome failure</b>	De Angelis and Hayes, 2010; Barringer and Ireland, 2010; Pryor, Toombs, Anderson and White, 2010; Kuratko, 2009.
<b>Self-confidence and locus of control</b>	Scarborough, 2011; Nieman and Nieuwenhuizen, 2009; Kuratko, 2009; Scarborough <i>et al.</i> , 2009; Nieman and Bennet, 2005; Crommie, 2000; Zimmerer and Scarborough, 1998; Kreitner and Kinicki, 1998; Goodman, 1994.
<b>Risk-taking</b>	Nieman and Nieuwenhuizen, 2009; Kuratko, 2009; Scarborough <i>et al.</i> , 2009; Timmons and Spinelli, 2009; Crommie, 2000; Zimmerer and Scarborough, 1998.
<b>Initiative and responsibility</b>	Scarborough <i>et al.</i> , 2009; Kreitner and Kinicki, 1998; Marx <i>et al.</i> , 1998; Goodman, 1994.
<b>High energy level</b>	Scarborough, 2011; Timmons and Spinelli, 2009; Thomas and Mueller, 1999; Marx <i>et al.</i> , 1998.
<b>Tolerance for ambiguity and uncertainty</b>	Scarborough, 2011; Scarborough <i>et al.</i> , 2009; Timmons and Spinelli, 2009; Nieman and Bennet, 2005; Entrialgo <i>et al.</i> , 2000; Zimmerer and Scarborough, 1998, Bowler, 1995.
<b>Creativity and flexibility</b>	Timmons and Spinelli, 2009; Nieman and Bennet, 2005;



<b>ENTREPRENEURIAL ATTRIBUTES</b>	<b>REFERENCES</b>
	Kreitner and Kinicki, 1998.
<b>Knowledge-seeking</b>	Julienti, Bakar and Ahmad, 2010; Mushonga, 1981; Bowler, 1995.
<b>Continuous learning</b>	Ribeiro 2010; Ming, 2009; Hellriegel, Jackson and Slocum, 1999; Kroon and Moolman, 1991.
<b>Financial proficiency</b>	Mankelwicz and Kitahara, 2010; Scarborough <i>et al.</i> , 2009; Zimmerer and Scarborough, 1998; Marx <i>et al.</i> , 1998.
<b>Money sense</b>	Cudmore, Patton, Ng and McClure, 2010; Kroon and Moolman, 1991.
<b>Business knowledge</b>	Scarborough <i>et al.</i> , 2009; Gerry, Marques and Nogueira, 2008; Marx <i>et al.</i> , 1998, Zimmerer and Scarborough, 1998.

(Source: Farrington, Venter, Neethling and Louw, 2010)

Men and women differ with regard to the attributes they possess. It is commonly believed that women are associated with qualities such as expressiveness, connectedness, relatedness, kindness, supportiveness and timidity, whereas men are associated more with qualities such as independence, aggressiveness, autonomy and courage (Gupta, Turban, Wiasti and Sikdar, 2009: 399). Several studies show that men and women also differ with regard to possessing certain entrepreneurial attributes. For example Sexton and Bowman-Upton (1990) as well as Thomas and Mueller (1999) have reported that women score lower than men on traits relating to risk-taking, energy levels and innovativeness. Ndubisi (2008: 113), on the other hand, reports that male entrepreneurs show significantly higher levels of perseverance and flexibility than females, but no significant difference was found between males and females with regard to the attributes innovativeness and risk-taking propensity. According to Sexton and Bowman-Upton (1990), female entrepreneurs scored significantly higher than their male counterparts on traits related to autonomy and change, whereas Smith, Dugan and Tompenaars (1997) found that across countries men consistently demonstrate higher levels of internal locus of control than women. In their study among undergraduate students, Louw, Van Eeden, Bosch and Venter (2003) have reported significant differences between male and female students with regard to the development of various entrepreneurial traits. For example, continuous learning and business knowledge were more developed among males than females. Cromie (1987) on the other hand, found no significant differences between males

and females with regard to the attribute need for achievement. Similarly, Kristiansen and Indarti (2004: 67) reported that the level of need for achievement and locus of control of female students did not differ significantly from those of male students. Most studies on women entrepreneurs seem to suggest that few differences exist between male and female entrepreneurs (Mueller, 2004). For example, Kakkonen (2010) concludes that male students did not have more entrepreneurial features than female students.

Significant differences in the level of development of certain entrepreneurial attributes have been reported among different ethnic groups (Louw *et al.*, 2003:20). For example, White students reported number sense as more developed than Black students, whereas Black students reported attributes such as risk-taking, initiative and responsibility and self-confidence as more developed than their White counterparts. Giacomini *et al.*, (2010) conclude that although students were motivated by similar factors, American, Asian and European students did not share the same entrepreneurial character.

According to Bönnte, Falck and Heblich (2007), the traits of entrepreneurs change as they get older. For example, traits such as risk-aversion and time-discounting vary in relation to the age of the individual. The time a potential entrepreneur is prepared to invest in a business before seeing a return on his/her investment is referred to as “Time-discounting”. This willingness generally decreases the older a person gets, as older people are more likely to opt for a fixed salary. A similar study, however, found that risk-aversion decreased with age, whereas time-discounting increased (Van Praag and Booij, 2003). In their study, Louw *et al.*, (2003: 20) reported that certain entrepreneurial attributes (e.g. risk-taking, initiative and responsibility, self-confidence, business knowledge) were better developed in more mature than in younger students.

According to Van Auken, Stephens, Fry and Silva (2006: 40), students from some countries are more than likely to possess entrepreneurial attributes than students from others. A student from an area (or country) where there are many entrepreneurs is likely to have access to more entrepreneurial knowledge than one who comes from an area with fewer entrepreneurs. Vazquez, Lanero, Gutierrez and Garcia (2010: 257) contend that more and more European universities have institutional systems that disseminate an entrepreneurial culture and provide students with support for new venture creation. Vazquez *et al.* (2010: 257) have found that European students are more likely to obtain access to entrepreneurial education if they attend

either a business school or a multidisciplinary institution with a Business-school department. Furthermore, Pushkarskaya (2008: 2) reports that students educated in urban areas show more knowledge about entrepreneurship than their rural counterparts because of high technology innovations and venture capital being more readily available to urban than rural students.

Family has been identified as the first place that enhances an individual's attitude towards entrepreneurship and his/her entrepreneurial capabilities (Bagheri and Pihie, 2010: 434). Growing up in a family where a relative, particularly a parent, has his/her own business provides an inspiring environment and the necessary information and resources for starting a new business. Such an environment creates an opportunity to experience the realities and challenges of the business world (Bagheri and Pihie, 2010: 434). Family members support prospective entrepreneurs directly by actively providing them with knowledge relevant for business success (Soetanto *et al.*, 2010: 25).

Against this background the following hypotheses are formulated:

H<sub>0</sub>: There is no relationship between the demographic variables under investigation (i.e. *Gender, Ethnicity, Level of study, University attended and Self-employment status of parents*) and the level of development of entrepreneurial attributes (see Table 1) of undergraduate Business students.

H<sub>a</sub>: There is a relationship between the demographic variables under investigation (i.e. *Gender, Ethnicity, Level of study, University attended and Self-employment status of parents*) and the level of development of entrepreneurial attributes (see Table 1) of undergraduate Business students.

## **RESEARCH DESIGN AND METHODOLOGY**

### **Sample and sampling method**

The email addresses of all undergraduate students registered for business modules at NMMU, Rhodes University and Stellenbosch University were obtained from the student records of the respective universities. All respondents were given the opportunity to participate in the study on a voluntary basis, and the sampling technique can be described as convenience sampling.

## Measuring instrument and data collection

To assess the levels of entrepreneurial attributes of respondents, the measuring instrument originally developed by Louw, Du Plessis, Bosch and Venter (1997) and later adapted by both Louw *et al.*, (2003) and Van Eeden *et al.*, (2005) was employed. Several questions were, however, added to the section requesting demographic information from respondents, so that the objectives of this study could be achieved. Section A of the questionnaire consisted of 104 statements relating to the entrepreneurial attributes under investigation. The statements were phrased with the possible response continuum linked to a Likert-style five-point scale (*1 = strongly disagree to 5 = strongly agree*). After evaluating the items and operational definitions used by Van Eeden *et al.*, 2005, several attributes were renamed, and the operational definitions rephrased. This was done to more accurately describe the personality traits, characteristics and/or skills being measured. These operational definitions are summarised in Table 2. In Section B of the questionnaire demographic information was requested and related to the *Gender* and *Ethnicity* of the respondent, as well as the *University attended* and *Level of study*.

**TABLE 2**

### OPERATIONAL DEFINITIONS OF THE ENTREPRENEURIAL ATTRIBUTES

<b>ENTREPRENEURIAL ATTRIBUTE</b>	<b>DEFINITION</b>
<b>Planning and perseverance</b>	Having goals, plans and the determination to follow through.
<b>Persuasion and networking</b>	Having the ability to convince others and build relationships.
<b>Communication ability</b>	Having the ability to communicate ideas to others.
<b>Commitment</b>	Having the ability to meet commitments in a timely manner.
<b>Overcome failure</b>	Refers to the ability to overcome failure and regard it as a learning experience.
<b>Self-confidence and locus of control</b>	Belief in self and belief that personal actions determine success.
<b>Risk-taking</b>	Having a predisposition for taking moderate, calculated risks providing a reasonable chance for success.
<b>Initiative and responsibility</b>	The willingness to take initiative and be responsible.

<b>ENTREPRENEURIAL ATTRIBUTE</b>	<b>DEFINITION</b>
<b>High energy level</b>	Having the ability to work long hours and stay focussed.
<b>Tolerance for ambiguity and uncertainty</b>	Having the ability to live with modest to high levels of uncertainty concerning job and career security, being able to perform different tasks simultaneously.
<b>Creativity and flexibility</b>	Being able to think originally and creatively while flexible enough to handle changing or multiple circumstances.
<b>Knowledge-seeking</b>	Being willing to seek information, ideas, expertise and the assistance of others.
<b>Continuous learning</b>	The desire to expand personal knowledge and enhance level of expertise.
<b>Financial proficiency</b>	Having the ability to understand and/or interpret financial transactions and results.
<b>Money Sense</b>	Recognising that money is an important factor, and having the ability to correctly use this resource.
<b>Business knowledge</b>	Possessing a basic understanding of business operations and terminology.

(Source: Farrington *et al.*, 2010)

All undergraduate students currently studying Business-related modules at NMMU, Rhodes University and Stellenbosch University were invited by email to participate in this study. In order to remind potential respondents of the survey, follow-up emails were sent after a two-week period had passed, and once again after a four-week period passed. The purpose of the study, assurances of confidentiality as well as the procedure and criteria for participation were clearly described in the email. Participants were able to complete the survey online. A web link was provided on the email sent to respondents.

### **Statistical analysis**

In order to analyse the data, descriptive statistics have been calculated to describe the sample. Furthermore, an exploratory factor analysis has been undertaken and Cronbach-alpha coefficients calculated to assess the validity and reliability of the measuring instrument. In order to establish whether significant differences existed with regard to the level of development of the entrepreneurial attributes investigated and selected demographic

variables, a multivariate (MANOVA) and a univariate analysis of variance (ANOVA) has been conducted. The results of these analyses are elaborated on in the paragraphs below.

## **DATA ANALYSIS AND EMPIRICAL RESULTS**

### **Describing the sample**

In total 447 undergraduate students undertaking Business modules at their respective universities completed the questionnaire. The participating universities were NMMU, Rhodes University and Stellenbosch University, with 200, 130 and 117 respondents respectively. Almost all the respondents (97%) were under the age of 25. Half (50%) of the respondents were in their first year of study, with the remaining being in the second or third year. There were slightly more females (55%) than males (45%) who participated in the study, and the majority were non-white (60%). Most (58%) respondents indicated that one or both of their parents were self-employed, whereas only 6% indicated that they themselves currently owned their own business. The majority (68%) of respondents indicated that they intended to manage their own business in the future. Of those intending to manage their own business in the future, 62% indicated they would do so within 10 years from the present, and 100% within 20 years.

### **Validity and reliability**

An item analysis consisting of two parts was undertaken on the items in the measuring instrument. Firstly, Cronbach's alpha coefficients (Ca) were calculated to assess the reliability (internal consistency) of the various scales. Secondly, in order to determine whether all the relevant items loaded on the applicable scale, an exploratory factor analysis was conducted. Principal component analysis was specified as the method of initial factor extraction. Factor rotation was not applicable because there was only one factor per scale.

The 16 entrepreneurial attributes were not postulated as mutually exclusive dimensions, and thus discriminant validity is not applicable in this study. Table 3 summarises the results of the item analysis.

**TABLE 3 ITEM ANALYSIS RESULTS**

Item	Loading	Item	Loading	Item	Loading	Item	Loading
<b>Plan/perseverance</b>		<b>Persuasion/networking</b>		<b>Communications</b>		<b>Commitment</b>	
n=434; Ca=0.81; V=40.5%		n=435; Ca=0.63; V=34.1%		n=432; Ca=0.72; V=32.2%		n=443; Ca=0.68; V=63.1%	
8	.560	12	.480	1	.604	29	.844
16	.649	21	<b>.258</b>	2	.568	30	.851
19	.677	33	.630	3	.417	43	.676
20	.660	34	.704	4	.637		
54	.518	41	.666	11	.570		
75	.767	63	.391	13	.650		
81	.646	64	.774	35	.444		
94	.624			82	.386		
95	.593			88	.732		
<b>Overcome Failure</b>		<b>Confidence/locus</b>		<b>Risk-taking</b>		<b>Initiative/responsible</b>	
n=440; Ca=0.64; V=38.1%		n=440; Ca=0.55; V=31.8%		n=442; Ca=0.53; V=36.9%		n=427; Ca=0.80; V=35.6%	
22	.580	57	.699	9	.623	6	.549
24	.693	72	.389	49	.778	17	.649
32	.356	73	.683	58	<b>.227</b>	26	.514
39	.712	74	.409	92	.685	27	.621
53	.638	91	.500	98	.573	38	.463
55	.654	96	.619			40	.680
						51	.476
						77	.666
						79	.709
						86	.667
						87	.501
<b>High energy level</b>		<b>Tolerate ambiguity</b>		<b>Creativity/flexibility</b>		<b>Knowledge seeking</b>	
n=434; Ca=0.64; V=33.6%		n=439; Ca= <b>0.48</b> ; V= <b>40.1</b> %		n=434; Ca=0.74; V=38.6%		n=436; Ca=0.72; V=38.3%	
10	.604	7	.649	36	.433	5	.688
42	.563	18	.361	44	.377	15	.567
59	<b>.275</b>	66	.758	45	.755	25	.586
78	.607	97	.691	46	.788	37	.434
80	.650			47	.694	56	.687

83	.679			48	.712	70	.692
84	.586			65	.553	71	.637
				67	.527		
<b>Continuous learning</b>		<b>Financial proficiency</b>		<b>Money Sense</b>		<b>Business knowledge</b>	
n=440; Ca=0.82; V53.8%		n=436; Ca=0.59; V48.2%		n=438; <b>Ca=0.40; V32.5%</b>		n=436; Ca=0.68; V=39.6%	
14	.776	60	.498	23	.508	85	.602
28	.507	61	.811	31	.441	89	.515
52	.829	62	.621	50	.741	99	.656
68	.822	76	.798	101	.750	100	.773
69	.799			104	<b>.245</b>	102	.559
93	.603					103	.640
Ca = Cronbach's alpha coefficient / V = Percentage of total variance explained							

For the purpose of this study Cronbach's alpha coefficients of less than 0.50 are regarded as unacceptable, those between 0.50 and 0.69 are regarded as sufficient, and those above 0.70 as acceptable (Nunnally, 1978). Furthermore, Cronbach's alpha values greater than 0.80 are regarded as good (Sekaran, 1992). In this study two attributes, namely *Tolerance for ambiguity and uncertainty* (J), and *Money sense* (O) produced unacceptable Cronbach's alpha coefficients of lower than 0.50 (see Table 3). These two attributes were thus eliminated from further statistical analysis. Cronbach's alpha values of between 0.53 and 0.82 were reported for the other attributes under investigation, providing satisfactory evidence of a reliable measuring instrument.

The factor analyses conducted revealed that, as expected, the majority of items loaded significantly onto the 16 entrepreneurial attributes under investigation. For the purpose of this study, factor loadings of greater than 0.30 were considered statistically significant (Hair, Black, Babin, Anderson and Tatham, 2006: 128). The few items with loadings of less than 0.30 were retained for further analyses. This was done to avoid unnecessarily jeopardising the content validity of these scales.

## EMPIRICAL RESULTS

In order to establish whether significant differences existed with regard to the level of development of the entrepreneurial attributes investigated and selected demographic variables, a multivariate analysis of variance (MANOVA) and a univariate analysis of variance (ANOVA) were conducted. Cohen's d statistics were calculated to establish practical



significance. Demographic variables included *University attended*, *Level of study*, *Gender*, *Ethnicity* and *Self-employment status of parents*.

The results of the MANOVA (see Table 4), ANOVA and Cohen's d statistics (see Tables 5 and 6) show that significant differences between the level of development of the entrepreneurial attributes *Risk-taking* and *Continuous learning* existed with regard to both the demographic variables gender and ethnicity, *Knowledge seeking* for gender only, and *Commitment* for ethnicity only. No significant differences were found between the *University attended* and the *Level of study*, or between students with and those without entrepreneurial parents (*Self-employment status of parents*), and the level of development of the entrepreneurial attributes under investigation in this study.

**TABLE 4**  
**MANOVA RESULTS - FACTORS AND BIOGRAPHICAL VARIABLES (N = 438)**

	<b>d.f.</b>	<b>F</b>	<b>p</b>
<b>University attended</b>	28; 792	0.71	.869
<b>Level of study</b>	28; 792	0.89	.631
<b>Gender</b>	14; 396	4.57	<b>.000*</b>
<b>Ethnicity</b>	28; 792	2.79	<b>.000*</b>
<b>Self-employment status parents</b>	14; 396	0.47	.948

(\* p < 0.001)

As can be seen in Table 5, significant differences existed with regard to the *Gender* of the respondent and the level of development of the entrepreneurial attributes *Risk-taking* and *Continuous learning* and *Knowledge seeking*. Males scored significantly higher for both *Risk-taking* (2.91; Cohen's d = 0.42), *Continuous learning* (3.52; Cohen's d = 0.45) and *Knowledge seeking* (3.57; Cohen's d = 0.30) than their female counterparts, who reported means scores of 2.67, 3.15 and 3.35 for the attributes *Risk-taking*, *Continuous learning* and *Knowledge seeking* respectively.

**TABLE 5**  
**SIGNIFICANT DIFFERENCES: ATTRIBUTES AND GENDER**

<b>Risk-taking</b>					
	n	Mean	S.D	Difference	Cohen's d
<b>Male</b>	188	2.91	0.58	0.24	<b>0.42*</b>
<b>Female</b>	231	2.67	0.53		
<b>Continuous learning</b>					
	n	Mean	S.D	Difference	Cohen's d
<b>Male</b>	188	3.52	0.81	0.37	<b>0.45*</b>
<b>Female</b>	231	3.15	0.85		
<b>Knowledge seeking</b>					
	n	Mean	S.D	Difference	Cohen's d
<b>Male</b>	188	3.57	0.81	0.22	<b>0.30*</b>
<b>Female</b>	231	3.35	0.73		

(Practical significance: \*\*\*Large  $d > 0.8$ ; \*\*Medium  $0.5 < d < 0.8$ ; \*Small  $0.2 < d < 0.5$ )

With regard to assessing the influence of *Ethnicity* on the level of development of the attributes under investigation, only two ethnic groups, namely White and Black African were taken into consideration. This was done because of the small number of other ethnic groups that participated in the study. Significant differences were reported (See Table 6) with regard to the *Ethnicity* of the respondent and the level of development of the entrepreneurial attributes *Commitment*, *Risk-taking* and *Continuous learning*. White respondents scored significantly higher means scores for both *Commitment* (4.38; Cohen's  $d = 0.40$ ) and *Risk-taking* (2.69; Cohen's  $d = -0.29$ ) than Black African students, who reported means scores of 4.05 and 2.85 for these attributes respectively. However, Black students reported significantly higher means scores for *Continuous learning* (3.55; Cohen's  $d = -0.62$ ) than White students (3.05) did.

**TABLE 6**  
**SIGNIFICANT DIFFERENCES: ATTRIBUTES AND ETHNICITY**

<b>Commitment</b>					
	n	Mean	S.D	Difference	Cohen's d
<b>White</b>	171	4.38	0.75	0.32	<b>0.40*</b>
<b>African</b>	215	4.05	0.85		
<b>Risk-taking</b>					
	n	Mean	S.D	Difference	Cohen's d
<b>White</b>	171	2.69	0.52	-0.17	<b>-0.29*</b>
<b>African</b>	215	2.85	0.60		
<b>Continuous learning</b>					
	n	Mean	S.D	Difference	Cohen's d
<b>White</b>	171	3.05	0.76	-0.50	<b>-0.62*</b>
<b>African</b>	215	3.55	0.84		

(Practical significance: \*\*\*Large  $d > 0.8$ ; \*\*Medium  $0.5 < d < 0.8$ ; \*Small  $0.2 < d < 0.5$ )

The null-hypothesis ( $H^0$ ) stating that there is no relationship between the *Demographic factors* investigated in this study and the level of development of entrepreneurial attributes of undergraduate Business students can be thus be rejected for the demographic variables *Gender* and *Ethnicity* but not for the variables *University attended*, *Level of Study* and *Self-employment status of parents*.

## DISCUSSION

The primary objective of this study was to investigate the influence of demographic factors on the levels of development of entrepreneurial attributes among undergraduate Business students in South Africa. The empirical results of this study show that significant differences in means scores were reported between the two different *Gender* and *Ethnic* groups for the attributes *Commitment*, *Continuous learning*, *Risk-taking* and *Knowledge seeking*.

The findings of this study show that significant differences in mean scores were reported between males and females with regard to the level of development of the entrepreneurial attributes *Risk-taking*, *Continuous learning* and *Knowledge seeking*. Male respondents considered themselves as possessing all three the aforementioned attributes more often than females students did. Male students were more likely to take moderate risks than female students. This finding concurs with those of Sexton and Bowman-Upton (1990), and Thomas

and Mueller (1999), who reported that females scored lower on the trait *Risk-taking* than their male counterparts. The results of the present study also showed that male students are more likely than female students to expand their personal knowledge and level of expertise through additional reading, and have a desire to expand personal knowledge and enhance their level of expertise, more than female students do.

The findings of this study showed significant differences in means scores between White and Black African students with regard to the level of development of the entrepreneurial attributes *Commitment*, *Risk-taking* and *Continuous learning*. White students reported higher means scores for the attributes *Commitment* and *Risk-taking*, implying that they perceived themselves as having a predisposition for taking moderate, calculated risks providing a reasonable chance of success, and having the ability to meet commitments in a timely manner, more than the Black students did. However, Black students reported higher means scores for *Continuous learning* than White students did. In other words, the Black students perceived themselves as having the desire to expand personal knowledge and enhance their level of expertise, more than the White students did

This study has investigated the influence of demographic variables on the levels of development of various entrepreneurial attributes among undergraduate business students at three South African Universities. Despite differences being identified between the various demographic groupings investigated in this study, research shows that it is possible to develop entrepreneurial attributes through educational programmes (Gurol and Atsan, 2006). According to Gerry *et al.*, (2008) more young people could become successful entrepreneurs if they were identified and cultivated during their entire educational process. Similarly, Mahadea (2001: 193) suggests that an individual's capacity to take risks can be nurtured and developed through the appropriate training. Therefore, the challenge facing educational institutions in South Africa is to foster an environment that stimulates the development of attributes necessary for entrepreneurial success among students of all demographic profiles. Furthermore, by identifying which entrepreneurial attributes are more or less developed among various demographic groups, programmes can be tailored to suit individual groups, so that a single approach to entrepreneurial education can be avoided. Tailoring programmes for different demographic groups may not be a viable option for tertiary institutions, but given the many initiative of the South African government focusing on women and black entrepreneurs, this recommendation has specific implications for their entrepreneurial offerings.

## LIMITATIONS AND FUTURE RESEARCH

When interpreting the findings of this study, several limitations should be taken into consideration. Respondents were required to assess the attributes under investigation using self-report measures. Common method bias can potentially occur when data is collected using self-report measures. Meade, Watson and Kroustalis (2007), however, suggest that self-reporting does not necessarily lead to the problem of common method bias, and in instances where it does, the bias may be so small that it does not necessarily jeopardise the validity of the results. The results of this study could, however, have been influenced by common method bias.

The use of convenience sampling introduces a source of potential bias into the study, and the findings of the study can thus not be generalised to the entire South African student population. Students of business are more likely to possess entrepreneurial attributes (Raab *et al.*, 2005; Gird and Bagraim, 2008) because they will perhaps have developed these attributes during their business studies. Because the respondents in this study had a tertiary education and had been exposed to business studies this could have resulted in their reporting higher levels of the measured entrepreneurial attributes than otherwise. A degree of bias is thus evident in the findings of this study. Furthermore, this study was limited to undergraduate Business students at NMMU, Rhodes and Stellenbosch Universities only, therefore generalising the findings to all South African students would not be appropriate. Future studies should include students from as many South African universities as is practically possible.

Two entrepreneurial attributes included in the measuring instrument, namely, *tolerance for ambiguity and uncertainty*, and *money sense*, produced low Cronbach's alpha coefficients and were thus not included in the data analysis. Future studies should attempt to improve the scales measuring these attributes. Although the measuring instrument employed in this study has been proved valid and reliable in previous studies, several shortcomings are still evident. For example, entrepreneurial attributes such as need for achievement, problem-solving ability, emotional stability, team ability and innovativeness (Raab *et al.*, 2005; Tajeddini and Mueller, 2009), as well as desire for immediate feedback (Scarborough, 2011: 22), are not accounted for or measured in the instrument. In future studies more up-to-date and relevant scales measuring entrepreneurial attributes should be utilised, and attributes such as those mentioned

should be included in the assessment.

The focus of this study is on assessing the influence of selected demographic factors on the development of entrepreneurial attributes among undergraduate Business students only. Business students are exposed to entrepreneurship during their studies, but whether this exposure has influenced the levels of development of the entrepreneurial attributes as perceived by the respondents in this study is unknown. In future studies the levels of development of these attributes should be investigated among both Business and non-Business students. In this way the two groups can be compared to one another. Furthermore, this study focused on assessing the influence of selected demographic factors only.

Despite these limitations, this study provides insights into the demographic profile of South African students intending to start their own business in the future. Through the findings of this study a contribution to the field of entrepreneurship and entrepreneurship education has been made.

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**ENTREPRENEURIAL CHARACTERISTICS AND MOTIVATION IN  
MALE AND FEMALE ENTREPRENEURS IN BOTSWANA: WHAT  
ARE THE DIFFERENCES?**

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Keywords: **Botswana, Entrepreneurship, Characteristics, Motivation, Men, Women.**

# **DEMOGRAPHIC CHARACTERISTICS AND MOTIVATION IN MALE AND FEMALE ENTREPRENEURS IN BOTSWANA: WHAT ARE THE DIFFERENCES?**

## **Abstract**

The purpose of this paper was twofold: to investigate how demographic characteristics influence the different genders and to identify factors that motivate Batswana to pursue entrepreneurship. The study interviewed 226 respondents. The study used independent samples t-test to test gender differences based on demographic characteristics. Exploratory Factor Analysis was used in extracting motivation factors. Four factors were extracted i.e. desire for independence, job discontent, utilization of experience and skill and security of welfare. The four factors were then subject to ANOVA to establish which factors have influence on different genders. Of the seventeen variables, one variable, personal security was significant. The study concluded there were no significant differences on demographic characteristics in the different genders. Female entrepreneurs were however more inclined to actively involve family members in their business. It was also concluded that there are no major gender differences in entrepreneurial motivation.

**Keywords:** Botswana, Entrepreneurship, Characteristics, Motivation

## Introduction

Past research has remained noncommittal on any significant differences that exist between men and women entrepreneurs. Studies however show women entrepreneurship has grown phenomenally in the past few decades with particular reference to developed economies (Parker, 2010). In spite of such observation women involvement has remained behind that of men. The number of women starting businesses remains significantly lower than men (Delmar and Davisson, 2000, Minniti, Arenius and Langowitz, 2005). This observation is consistently present in most mature market economies (Carter, 2000). A recent study by Rob et al (2009) in the US traced firms founded in 2004 and concluded that only 30 percent of the primary owners were women. Franco (2007) found that in the EU there continues to be more male entrepreneurs than female entrepreneurs. The study posits that the small share of self-employed women in the EU can be explained by the large proportion of women employed in public administration, education, health and social work. In developing economies, little is known about the comparative involvement of men and women entrepreneurs in their economies. Women in Botswana make up 45% in the formal employment sector, which is quite significant in a developing economy. However, data from CEDA (Citizen Entrepreneurship Development Agency), a state owned enterprise responsible for funding both new and expansion projects, show on average males receive 68% of the funding whilst women receive approximately 32%. Although data from CEDA is not an amalgamation of all funding institutions in Botswana, it represents the largest source of „external“ funding for first time entrepreneurs thus the data give a cue into the situation. On the surface, the funding disparity shows women entrepreneurs in Botswana are disadvantaged compared to male counterparts. World Bank Enterprise Surveys (2002-2006) show that Botswana’s women entrepreneurs in manufacturing own more than 55% of the enterprises although for most African countries women entrepreneurs are a minority. Women in Cameroon, Cape Verde and Mozambique also contribute up to 40% or more (Bardasi, Blackden and Guzman, 2007). This article takes a positivist approach in its analysis steering clear of the radical feminist theory. It purposively keeps at threshold issues of power relations in its comparative analysis due to lack of adequate conclusive local data on such a subject matter. The article will comparatively analyze men and women entrepreneurs in Botswana seeking differences and similarities that have implications for entrepreneurship practice and policy. Comparisons will



focus on two areas: personal characteristics of the entrepreneurs; and factors motivating nascent entrepreneurs into start-up.

### **Problem Investigated**

One of the gaps in developing countries, with reference to entrepreneurship, is lack of knowledge on what differentiates entrepreneurial motivation of male from female entrepreneurs. Understanding of the distinction is important for gender specific policy, if there is need for such. This study aims to undertake a comparative study of demographic characteristics of male and female entrepreneurs. A follow up comparative analysis of factors that motivate business start-up for both male and female entrepreneurs will be undertaken. The questions in this problem are: What are the significant differences in demographic profiles between male and female entrepreneurs? What are the motivation factors that have significant influence on the different genders in entrepreneurship? What appropriate policy and or managerial practices can be recommended from the observed differences (if any)?

### **Research Objectives**

The objectives of the study were:

- To investigate the influence of demographic characteristics on genders differences of entrepreneurs in Botswana.
- To identify the major motivation variables for entrepreneurs in Botswana.
- To investigate whether motivation variables have significant influence on gender differences of entrepreneurs in Botswana.
- To recommend appropriate managerial and or policy practices that encourage targeted assistance of different gender.

## **Literature Review**

### **Comparative characteristics of male and female entrepreneurs**

Research has provided some insight into the differences and similarities between male and female entrepreneurs. Brush (1992) indicated that similarities between male and female entrepreneurs outweigh the differences. Analyzing personal characteristics, Weiler and Bernasek (2001), in a study based on US census data, reported that nearly 70% of women entrepreneurs were between the ages of 25 and 54 and slightly over 70% were married. In another study Devine (1994) found that women entrepreneurs were in most cases married (74.7%) compared to male entrepreneurs. Social factors have been reported to be a major barrier to women entrepreneurship compared to male counterparts. Women have been found to be less likely to have educational backgrounds in growth industries such as engineering and computing, and tend not to have taken classes on how to start a business (Menziez, Diochon and Gasse, 2004). Sarri and Trihopoulou (2004) categorized such factors preventing equal participation of women in entrepreneurship as: the historically consolidated distribution of roles between sexes and the stereotypes for the role of women in the family, in the nurturing of children and other dependent family members; the existence of insufficient structures supporting women in the nurturing of children and elders; and points in the lifecycle that are considered to be of particular importance in studying the development of work of women and their family life.

Comparative studies of men and women entrepreneurs show women start businesses at an older age than men, normally when they have had the family and children (Trihopoulou and Sarri, 1997). The Global Entrepreneurship Monitor of 2001 reported that in Portugal, women entrepreneurs tend to start their business later than men. A higher proportion of women become entrepreneurs in order to balance work and family while men seek wealth creation and or economic advancement (DeMartino and Barbato, 2003). The authors observed that women are motivated to higher degree than equally qualified men to become entrepreneurs for family related lifestyle reasons. Fasci and Valdez (1998) found that women-owned enterprises were smaller and less profitable than those of male counterparts because women sought autonomy and flexibility to focus on family needs as reason for starting the business. Two thirds of the female entrepreneurs tend to structure their enterprise around their personal life, compared to 15% of the male entrepreneurs (Bailyn, 1993). They possess a higher

intensity of preference for family related motivators. Studies have also reported that initial capital in women's businesses was smaller than men's at start-up (Letowski, 1996). A majority of women-owned businesses start and stay small, never employing more than 10 people (NWBC, 2005). This is because women as opposed to male entrepreneurs prefer to rely mostly on personal or relatives' savings rather than going into debt. Risk aversion was higher in women than men (Sexton and Bowman, 1990). Due to low capitalization women-owned businesses have lower sales revenue than those of males. Women entrepreneurs also preferred to develop their own businesses without external partners, funds or acquisitions (Orhan, 2001). DeMartino and Barbato (2003) reported that although male entrepreneurs and female entrepreneurs were similar in their motivations, the male entrepreneurs were more effective at networking and took substantially more financial risks than women.

## **Motivation**

In its summary report of 2002 the GEM Global Entrepreneurship Report observed that the actual decision to pursue a new firm start-up reflects a complex interaction between the individuals' personal background, family and personal context, and trends in regional or national economic situation. An earlier study of women entrepreneurs in Africa by Kuiper (1993) profiled the major motivating factors for African female entrepreneurs as family circumstances, urge to improve economic status, search for economic independence and life-path changes. In a recent study Cohoon, Wadhwa and Mitchell (2010) concluded that successful men and women entrepreneurs share similar motivations and under similar conditions both can be successful. However research has also observed that the decision to start a business is more complex for women than men and that women are more sensitive than men to nonmonetary issues (Bird and Brush, 2002; Burke, FitzRoy, and Nolan, 2002). It has also been noted that while objective environmental influences seem especially relevant when studying macro-level rates of start-up, it's essential to view entrepreneurial perceptions as a mechanism that filters the impact of objective conditions on individual-level processes Begley, Tan and Schoch (2005). This applies to both male and female entrepreneurs. They further posit that perceptions of environmental munificence are likely to be highly relevant prior to firm formation.

As Robertson *et al.* (2003) have noted a business can neither start nor succeed without motivation. Studies (Bartol and Martin, 1998; Ivancevich, Konopaske and Matteson (1997); Gelin, 2005) have found that most women tend to cite push factors as the motivation for having gone into entrepreneurship. Such factors may include dissatisfaction with current job, family instability, desire to achieve personal goals, improving one's family, pride of ownership, etc. One such perennial organizational push factor has been the „glass ceiling“ which motivates women to leave their jobs to become entrepreneurs (Hisrich and Brush, 1986). Among other factors Lee and Rogoff (1997) also identified desire for greater life flexibility, seeking challenges and fulfilling a long-felt desire as important motivators. As Hisrich (1986) noted women suffered job frustrations when they were not allowed to perform at their optimum which drives them into entrepreneurship because of the independence and sense of achievement that entrepreneurship provides. Raman *et al.* (2008) in a study of Malaysian women entrepreneurs found the urge for the monetary return and the need to stabilize the family financially tends to further motivate women to become entrepreneurs. Other researchers have however observed differences they considered significant. Scott (1986) observed that men were concerned with the issue of independence and the desire to be their own boss whereas women were concerned with personal challenge and satisfaction. Networks and role models have been found to be significant for women entrepreneurs in various stages of the entrepreneurial process (Langowitz, Sharpe and Godwyn, 2006). Networking and social capital has also been found to play an important role in women business owners' access to financial capital (Carter et al., 2003; Shaw et al., 2006). Welter et al (2004) have shown that although women entrepreneurs have access to networks and networking, they lack the level of contacts that men can draw on. Cohoon, Wadhwa and Mitchell (2010) observed that women were more likely to cite a business partner's encouragement as a key incentive to pursue entrepreneurship. The study also found that women rated their professional and business networks more highly as important contributors to success than men would do. As a result of their lack of high-level networks and as a result of existing qualifications, women often become entrepreneurs through small scale shops, restaurants and pharmacies (Welter and Kolb, 2006). Franco (2007) noted that in virtually all EU countries a significantly larger proportion of women entrepreneurs than men had businesses in the distributive trades, hotels and restaurants and personal and community services. In contrast there are more male entrepreneurs in industry and construction. Financial and business services accounted for similar proportions.

As Vijaya (2000) noted, demographic variables also contribute significantly to the entrepreneurial intention in women. For both gender sociological and anthropological characteristics such as first child, being an immigrant, having early role models, as well as gender difference, have been associated with an entrepreneurial personality (Bird, 1989). Hisrich (1985) found that the first source of advice for male entrepreneurs was professional experts and the second was their spouses, whereas the first source of advice for female entrepreneurs was their spouse, second was their friends, and third was professional advisors. Allen, Elam, Langowitz and Dean (2008) report that when considering interactions of employment, income level and education, for those with a household income in the lowest group, having a job makes a woman more than three times as likely to be involved in early stage entrepreneurship than if she is not employed. In their view these findings suggest that for the poorer and less educated, work experience provides a valuable platform toward starting a business.

### **Research Methodology**

The study involved the use of the survey method. The survey itself was in two stages: the pilot survey which targeted 5% (15 units) of the target sample to test on validity and reliability of all the questions in the questionnaire. The second part of the survey involved the main study targeting 300 sample units constituting both male and female entrepreneurs. A simple random sampling technique was employed in selecting sample units. Random numbers were generated and allocated to units during the process of selecting the units. This approach reduces bias in the sample. It also increases chances of the sample being representative of the population and aid in the generalization of findings. The sampling unit during data collection was the owner-manager. Of the 300 targeted sample elements 226 responded thus achieving an overall response rate of 75.33%. The split in the returns was 101 women and 125 male entrepreneurs representing 45% and 55% of the total returns respectively. The study selected samples from 10 economic sectors: agriculture; transport and communication; wholesale and retail; education; hotel and tourism; health; engineering; construction; manufacturing; professional services and others.

The data was analyzed at three levels: descriptive analysis using frequency analysis was undertaken on demographic variables. The variables were then subjected to independent samples t-test to test gender differences. Lastly motivation variables were subject to Factor

Analysis by way of Principal Components Analysis. Variables with loadings of at 0.4 were then subject to analysis of variance (ANOVA).

### **Instrument design and reliability**

The questionnaire was interviewer administered. Constructs in the questionnaire were mainly identified from literature and from responses to the pilot test. The questionnaire used the 5-point Likert scale and reserved a few open ended questions for respondents' general comments. For purposes of testing reliability of questions, the instrument was subjected to Cronbach's  $\alpha$  test. The reliability benchmark was set at  $\alpha \geq 0.70$ . The reliability coefficient of the questionnaire is  $\alpha \geq 0.73$ . To test non-response bias, the responses of those who responded early were compared to those who responded late to determine if there are any statistical differences. There were no statistical differences between the early and late responses.

### **Results/Findings**

#### **Demographic characteristics of male and female entrepreneurs**

Heterogeneity of demographic characteristics among entrepreneurs has always fascinated researchers. Understanding demographic characteristics of entrepreneurs is an important preface to comprehending the influence of these characteristics on the different gender. Results show women entrepreneurs in Botswana are concentrated in the 22 – 60 years age spectrum. None of the female respondents in this study was below age 21. As results show, 50.5% of the respondents are in the 21-40 years age group and 40.6% are within 41-60 age group. If the study assumes a retirement age of age 60, results show lack of appetite for entry or staying in business by women retirees. Only 8.9% of female entrepreneurs in the current study are above age 60. On the other hand men enter business slightly late compared to women. However there is a higher concentration of male entrepreneurs in middle age i.e. 41-60. As with females, there is no appetite for entrepreneurship beyond retirement with only 4% of the males having recently moved into business.

Analysis of educational levels shows 65.3 % of the women compared to 46.4% of male entrepreneurs hold either primary or secondary school certificates. Females with an undergraduate or graduate degree constitute 11.9% compared to 30.4% of male

entrepreneurs. Differences are also noticeable at diploma level where 29% of males hold diplomas compared to 20% for female entrepreneurs.

Responses on marital status show only 45.5% of female entrepreneurs are married compared to males at 64.8%. Results also show 39.6 % of females are single compared to 29.6% for male entrepreneurs. Fifteen percent of the female entrepreneurs are either divorced or widowed compared 5.8% for males. If divorced, widowed and single are collectively categorized single, the results show that 54.5% of enterprises in the study are owned and managed by single female households compared to 35.2% for single male households. A World Bank study by Bardasi, Blackden and Guzman (2007) focusing on Sub-Saharan Africa found that in almost all countries in their sample, a much lower share of female than male entrepreneurs is married.

Analysis of annual turnover in relationship to gender show 28% of male enterprises compared to 42.6% of female business reporting annual turnover of less than P60000 (≈US\$ 8 600). Whereas up to 9.6% of male entrepreneurs report annual turnover above US700000 only 1% of female entrepreneurs are in that category. Although the tested result is on gender and annual turnover, it has implications on future growth ambitions of the enterprises.

Results show entrepreneurs actively involve their families in both the decision to start the business and in running the business. At 68.3% female entrepreneurs are more amenable to involving family members than males at 52.8%.

Analyzing the results on the relationship between the type of business and gender preference show women entrepreneurs being more inclined and concentrated on service related sectors such as retail, textile and clothing, and healthcare whereas male entrepreneurs are inclined toward manufacturing, agriculture, engineering, and professional services.

When the results are analyzed taking cognizance of Botswana's Entrepreneurship Policy categorization, 69.3% of the female respondents' businesses are microenterprises whereas 56.8% of male enterprise would fall in the same category. Using the same benchmark, 26.7% of the female enterprises against 35.2% of male enterprises qualify as small businesses. For female businesses only 3% against 8% for male businesses fall in the category of medium enterprises. The dominance of micro size businesses could be a result of poor initial

capitalization. The study shows that the main source of capital for male and female entrepreneurs is owner savings 68.3%. If owner savings were grouped together with funding from relatives and friends and categorized as “inside equity” the observation from this study is that both male and female entrepreneurs in Botswana are mainly self-sponsored upstarts in each case contributing up to at least 70% to start-up capital. Government funding through programmes administered by its agencies such as LEA and CEDA have funded up to 15% of the start-ups. Even though commercial banks and other private financial institutions have a wide financial resource base they have only funded 10% of the start-ups.

Up to 60.4% of the female entrepreneurs started their businesses with less than P100 000 ( $\approx$  US \$14 000). Falling in the same category are 58.4% male entrepreneurs. Up to 82% of the female enterprises were started with capital of less than P300 000 ( $\approx$ US \$42000). The remaining 18% of the female entrepreneurs who report start-up capital higher than P300000 comprise mainly those that managed to borrow from the banks and other lending institutions. As for male entrepreneurs, up to 18.4% had start-up capital as high as P500000 ( $\approx$  US\$71000) whereas only 8.9% female fall in that category. A test of association between size of start-up capital and size of enterprise start-up show a significant relationship at  $\rho=0.05$ . The smaller the start-up capital the higher the likelihood the enterprise shows no growth potential.

The micro size of most of these enterprises corroborates the fact that most of them, 51.5% for female entrepreneurs and 35.2% for males are run by individuals. Cooperation through partnerships constitutes 49.5% for females and 64.8% for males. Partnerships are mainly between one or two individuals. Partnerships of three or more are very low for both male and female entrepreneurs. The term partnerships is here being used to mean an arrangement involving one or more individuals working together based on mutual interests in a small business venture without necessarily having drawn up a partnership agreement which in this instance may or may not exist.

A select number of demographic characteristics i.e. age, level of education, marital status, number of dependants, number of business partners and family involvement in the business were subjected to independent samples t-test to identify gender differences based on demographic characteristics. Except for active family involvement gender differences were not statistically significant for the other six characteristics. Since active family involvement is



significant ( $p = 0.017$ ) we cannot assume equal variances (See Table 1). The results therefore show that females tend to involve family members in their business than male entrepreneurs.

**Table 1:Independent Samples Test**

		Levene's Test for Equality of Variances		t-test for Equality of Means		
		F	Sig.	t	df	Sig. (2-tail)
age group	Equal variances assumed	2.983	.086	-0.198	224	.
	Equal variances not assumed			-0.195	200.625	.
highest educ level	Equal variances assumed	10.877	.001	-1.585	224	.
	Equal variances not assumed			-1.426	100.817	.
marital status	Equal variances assumed	8.047	.005	-0.189	224	.
	Equal variances not assumed			-0.184	182.809	.
number of dependents	Equal variances assumed	4.111	.044	-1.453	224	.
	Equal variances not assumed			-1.323	110.435	.
number of partners	Equal variances assumed	2.327	.129	-0.748	224	.
	Equal variances not assumed			-0.673	101.822	.
number of employees	Equal variances assumed	2.601	.108	-0.900	224	.
	Equal variances not assumed			-0.809	100.705	.
family actively involved	Equal variances assumed	17.727	.000	2.384	224	.
	Equal variances not assumed			2.402	219.385	.

### **Factors motivating entrepreneurial start-up**

Originally there were seventeen variables and it was necessary to reduce the variable dimensions to a small number that could explain factors motivating entrepreneurial start-up. Factor analysis was therefore undertaken for all variables in order to come up with a single factor structure for both male and female entrepreneurs. The principle in using the Principal Components method is that it identifies the best combination of variables by accounting for most of the variance in the data as a whole. Those variables related to each other should then load on one factor. Below is the Principal Components Analysis of the motivation variables. Variables with loadings less than 0.4 have been taken out (See Table 2 below):

**Table 2: Rotated Component Matrix<sup>a</sup>**

	Component			
	1	2	3	4
to be recognised		.462		
support family				.526
personal security				.674
lost job		.505		
family income				-.563
educational background			.733	
own boss	.423			.510
employment dissatisfaction		.515		
become business person	.639			
footsteps of family		.438		
desire to achieve	.742			
former occupation			.681	
immitating others		.696		
try new idea			-.411	
opportunity recognition	.669			
control own destiny	.671			
acquire wealth	.688			

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 8 iterations.

Only factors with eigenvalue greater than 1 i.e. the Kaiser criterion, were considered. A Cattell's scree test was generated to confirm the break point between factors with eigenvalue greater than 1 and therefore important for further analysis and those less than 1. In this paper, only factor loadings of at least 0.4 are retained in the rotated matrix table (Ford, MacCallum and Tait, 1986). Factor loadings will also not be average weighted. Instead the paper will adopt Cattell's approach that the unit weightings for the items that loaded are just as good for purposes of further analysis.

Principal Component 1 is dominated by six variables i.e. become my own boss, become business person, desire to achieve, opportunity recognition, control my own destiny, and acquire own wealth. The six factors represent 19.6% of the total variance. The variables that load on factor 1 relate to a strong desire for independence i.e. being your own person. This

factor will be labeled **Desire for Independence**. The desire for independence is premised on the strong pursuit for entrepreneurship as a way of generating own wealth thus controlling own future. Although pursuit of entrepreneurship does not guarantee success, nonetheless it provides a strong basis for independence.

Principal Component 2 has five factors whose theme is loss of employment and job dissatisfaction. The five variables explain 10.4% of the total variance. This factor will be labeled **Job Discontent**. Research on women entrepreneurship in particular has found out that women face major discontent at workplaces especially with lack of recognition by way of promotion. They tend to encounter the “glass ceiling” which frustrates their occupational ambitions. In synthesizing the meaning of variables constituting this factor, it appears both male and female entrepreneurs in Botswana pursue entrepreneurship as a result of discontent in their jobs.

Principal Component 3 comprises three variables i.e. educational background, former occupation and trying new ideas. The three variables account for 10.1% of the total variances. The factor will be labeled Utilization of Experience and Skill.

Principal Component 4 comprises four variables i.e. support family, personal security, family income and become own boss. The four variables account for 7.1% of the total variance. The factor will be labeled Security of Welfare.

The four factors extracted through Principal Components were further subjected to Analysis of Variance (ANOVA) to establish which factors have an influence on the different genders. In undertaking the test, variables that had loaded on the four factors were subjected to a two step test. First they were subjected Levene’s test for homogeneity of variances to assess whether the variances for the two gender groups are significantly different from each other (See Table 3). The hypothesis in this test is that population variances are equal. The test of homogeneity of variances shows the p-value of fifteen of the seventeen variables to be greater than 0.05. The data do not violate the homogeneity of variance assumption. We reject the hypothesis on two variables i.e. personal security and wanting to be own boss which violate the homogeneity of variance assumption thus necessitating further test.

Table 3

Test of Homogeneity of Variances

	Levene Statistic	df1	df2	Sig.
support family	.078	1	224	.780
personal security	17.117	1	224	.000
family income	1.798	1	224	.181
own boss	4.939	1	224	.027

\*The variables in Table 3 only apply to those that loaded on Factor 4 i.e Personal Security. None of the other variables in the other three factors were not were significant

After subjecting the variables to Levene's test, they were then subjected to ANOVA test (See Table 4). The test shows only one variable, personal security, with F-value of 6.856 and  $p=0.009$ . The above results lead to the conclusion that these data provides evidence of at least one significant difference in motivation in the gender groups. The difference is in perception toward personal security. Post-hoc tests could not because there are fewer than three groups.

Table 4

ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
support family	Between Groups	.105	1	.105	.071	.790
	Within Groups	329.510	224	1.471		
	Total	329.615	225			
personal security	Between Groups	9.070	1	9.070	6.856	.009
	Within Groups	296.333	224	1.323		
	Total	305.403	225			
family income	Between Groups	27.899	1	27.899	1.923	.167
	Within Groups	3250.243	224	14.510		
	Total	3278.142	225			
own boss	Between Groups	.861	1	.861	.559	.455
	Within Groups	344.914	224	1.540		

**ANOVA**

		Sum of Squares	df	Mean Square	F	Sig.
support family	Between Groups	.105	1	.105	.071	.790
	Within Groups	329.510	224	1.471		
	Total	329.615	225			
personal security	Between Groups	9.070	1	9.070	6.856	.009
	Within Groups	296.333	224	1.323		
	Total	305.403	225			
family income	Between Groups	27.899	1	27.899	1.923	.167
	Within Groups	3250.243	224	14.510		
	Total	3278.142	225			
own boss	Between Groups	.861	1	.861	.559	.455
	Within Groups	344.914	224	1.540		
	Total	345.774	225			

\*The variables in Table 4 only apply to those that loaded on Factor 4 i.e. Personal Security.

The differences in the two gender groups appear to originate in the fact that most male respondents (mean=4.10) regard personal security as a major motivating factor compared to female entrepreneurs (mean=3.69). Further illustration of gender differences on personal security i.e. security of personal welfare is illustrated in Figure 1 below. Three of the four variables that constitute Factor 4 show higher frequencies in male responses compared to female entrepreneurs.

Figure 1. Importance of motivating factors at start-up as perceived by each gender

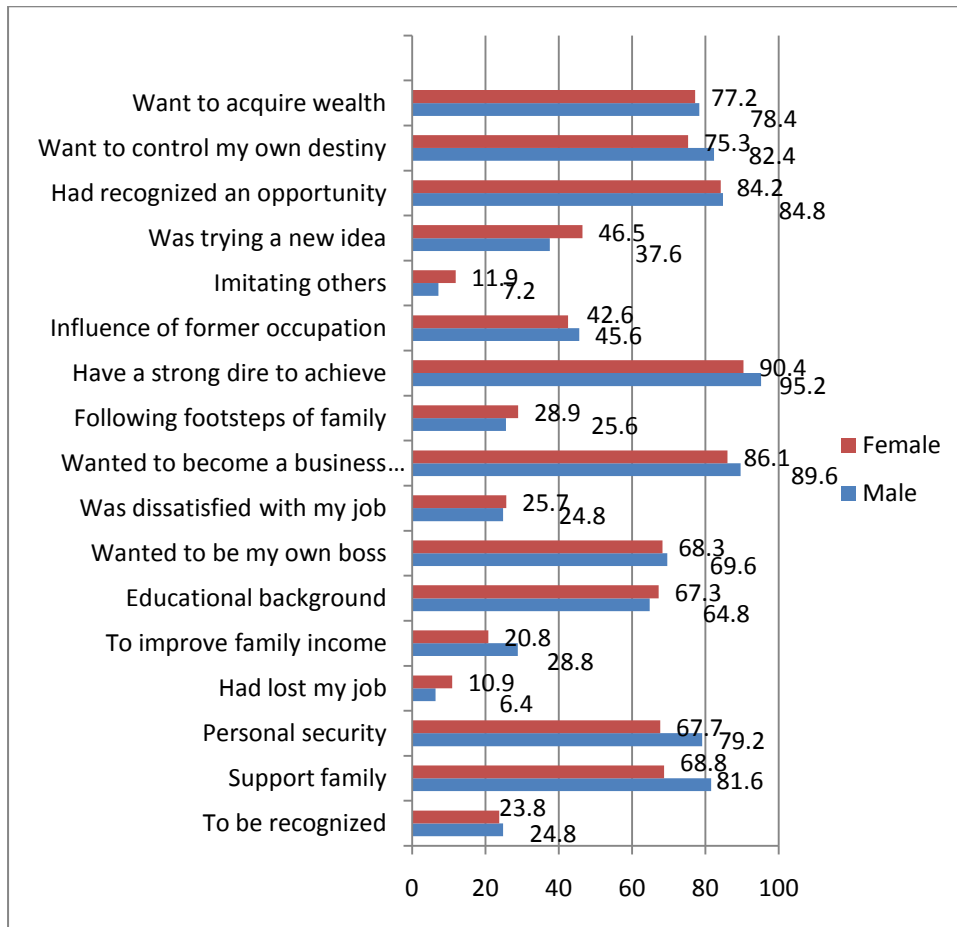


Figure 1 illustrates comparatively the closeness in the factors that motivated entrepreneurs at the start-up time. The illustration is a result of respondent rankings of the seventeen variables based on importance attached to each variable at the time of business start-up. Respondents selected and ranked only the variables they perceived as important motivation at the time of entering into business. As shown in the illustration there is small differences in terms of choice and rankings done by respondents. Some motivation variables attracted almost the same number of rankings and number of respondents.

### Conclusions and recommendations

The objective of this paper was to consider differences within and across gender on two main areas: demographic characteristics and factors that motivate the decision to start a business. Of particular focus was to identify significant gender differences that could inform policy and management practice for organizations such as financial institutions. Descriptive analysis of demographic factors showed that female entrepreneurs enter business earlier in their life than

male counterparts. The same analysis showed male entrepreneurs tend to be more educated than their female counterparts. In terms of marital status there are more married male entrepreneurs compared to females. Results reveal that most female owned enterprises are micro in size and the larger the enterprise the more male entrepreneurs dominate. These findings corroborate past studies that have found that women entrepreneurs tend to prefer small businesses compared to their male counterparts. Women in general tend not to pursue aggressive growth objectives (NWBC, 2005). On capitalization personal funding dominates start-up funding. Government lending agencies and financial institutions are not committing much funding to entrepreneurial start-ups. The level of funding is also skewed in that most female entrepreneurs reported lower amounts of start-up capital compared to their male counterparts. The low start-up capital has affected the enterprise sizes for both male and female entrepreneurs. Enterprises that report low start-up capital have the lowest numbers of employees.

Further analysis of demographic characteristics showed no major gender differences except on involvement of other family members in the business. Results showed that women entrepreneurs in particular are likely to involve other family members in the business. Involvement of the family by male entrepreneurs is low. Other studies have corroborated these findings. According to Bardasi, Blackden and Guzman (2007) women are more likely than men to own and manage their enterprise together with other members of the family rather than on their own. Although other demographic characteristics i.e. age, level of education, marital status, number of dependants, number of business partners and active family involvement were subjected to the same test they all showed no gender differences.

Results in this study show there is no gender difference on motivation to enter into business i.e. the motivation profile for male and female entrepreneurs are essentially similar. Mitchell (2004) in a study of motives for entrepreneurship in South Africa also found that there were no significant differences between male and female entrepreneurs on factors of motivation to enter business. In this study the only motivation variable influencing the different genders is personal security i.e. security of personal welfare. Male entrepreneurs emphasized on the issue of individual and family welfare as the motivator more than female counterparts.

## **Implications for practice/recommendations**

- The common similarity in the demographic characteristics and in the influence of motivating factors on the different gender implies that policymaking should always try to create similar conditions for both male and female entrepreneurs. Exposed to the same conditions both gender should perform to the same level.
- Giving special attention to young female entrepreneurs and encourage early entry into entrepreneurs.
- As long as financial institutions are not forthcoming when women seek funding, growth of entrepreneurship among females in Botswana will remain focused on microenterprises. Mandating financial institutions to increase their lending to female entrepreneurs should be a policy priority.
- For financial institutions there exists scope in targeting both male and female micro and small entrepreneurs for funding at start-up.

## **Areas of further research**

In this paper gender differences on demographic characteristics have been observed on participation of family members in business. Confirmatory studies on these findings are necessary. Why is it that female entrepreneurs welcome active participation of other family members than male entrepreneurs? Confirmatory studies are also necessary on why males are more inclined to emphasize on personal security as motivation than female entrepreneurs. Further research is also needed on the disparity in terms of the numbers of male and female entrepreneurs. Studies continue to indicate that for most economies there are more male than female entrepreneurs. Why is it that way given that the motivation to enter into business for both genders is similar? Much as the results in this study show there is no gender differences in motivation there is need for research to profile constraints for women entrepreneurs in Botswana. There is dearth of information on this area.



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# ENTREPRENEURSHIP POLICY IN SOUTH AFRICA: AN EXAMINATION

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**Keywords:** entrepreneurship policy; South Africa; new framework

# ENTREPRENEURSHIP POLICY IN SOUTH AFRICA: AN EXAMINATION

## **Abstract :**

While the stimulation of entrepreneurship and small business is important to South Africa, the global competitiveness race and the moves occurring in other parts of the world require us to hasten towards the development and adoption of policies that encourage innovation and entrepreneurship. Fairly comprehensive policy instruments exist for SMME support in South Africa. The paper proposes a policy framework that extends SMME support to include instruments for local economic development and innovation. This policy framework is proposed in response to the wide range of objectives ranging from poverty alleviation to international competitiveness required for South Africa's economic development.

The paper documents policy instruments through a review of existing research and raises the important issue of policy evaluation. South African policy makers are urged to develop entrepreneurship indicators that will allow us to evaluate the impact of entrepreneurship policy in a global context.



## 1. Introduction

As policymakers across the globe search for new or alternate models of growth and sustainable development, the Organisation for Economic Co-operation and Development and UNCTAD have suggested that policies to promote growth and economic prosperity should be inclined toward enabling an environment that fosters entrepreneurship and Small and Medium Enterprise (SMEs).

Their suggestions are affirmed through evidence from the emerging economies of China and India, in which, approximately 97 per cent of jobs are created by entrepreneurs in SMEs (OECD, 2011a). More importantly, whilst other countries have experienced negative growth rates (*increasing but at a decreasing rate*) during the recession, China and India have experienced positive growth rates of up to 10% in some quarters (Chidambaram, 2011). Given its benefits, entrepreneurship has risen on the agendas of policy makers across the globe as a formidable channel for economic and social progress.

However, the OECD (2011) has principally noted two serious constraints to effective entrepreneurship policy. First, the regulatory environment, especially in terms of tax and access to finance, often negate strategies that aim to encourage people to become entrepreneurs. Secondly, measuring the effectiveness of these policies and modifying them accordingly is often an unworkable task given the lack of useful data (OECD, 2011a). If governments are to increase their commitment and investment in strategies to promote entrepreneurship, accurate measures are needed to assess their effectiveness, in order that they may be modified accordingly.

Ahmad and Hoffman, (2008:3) acknowledge that: *“Many countries now recognise entrepreneurship policy as a separate discipline and, as a consequence, have taken steps to improve the measurement of entrepreneurship at the national level. At an international level, programs by the World Bank, Eurostat and private organisations such as the Global Entrepreneurship Monitor have also started to develop internationally comparable data”*.

The objectives of this paper are:

- To reflect on entrepreneurship policy in South Africa in the context of the global research

- To suggest a policy framework that extends beyond the traditional SME support to include on the one hand, micro enterprise development and on the other, innovation and international competitiveness
- To review the research into the policy measures in existence in South Africa.

## **2. The Importance of Entrepreneurship**

Empirical evidence suggests that entrepreneurship plays specific, but important roles in economic development. Acs (2006) notes that entrepreneurs, in developed and developing countries, help keep the levels of unemployment and poverty low, simply because they create new businesses, and new businesses in-turn create jobs. High levels of entrepreneurship will thus translate into higher levels of economic development and growth in the macro economy.

Entrepreneurship is often cited as a crucial tool that facilitates the transformation of a country's economy from a developing one to a developed one. It achieves this by facilitating the structural transformation of countries from low-income, factor driven societies, into high-income technology-based societies (Naudè, 2008). Thus, through the application of existing technologies in innovative ways or launching new technology, entrepreneurs not only increase competition in the market, but also create positive market externalities.

More specifically, Van Praag and Versloot (2007) identify economic benefits of entrepreneurship in four main categories, namely: employment generation; innovation; productivity and growth; and increasing individuals' utility levels. Expanding on the important role of entrepreneurs as innovators, Berglund (2005) states that entrepreneurs disrupt prevailing equilibria (a process of creative destruction) in economic markets through innovation, thereby changing various economic benchmarks and enabling growth within the economy.

South Africa's current economic and socio-economic conditions demand serious economic reform. Although South Africa is one of the strongest economies in Africa, it is distressing to note that unemployment and poverty are still major issues for the majority of citizens. According to Statistics SA (2011) approximately 24% of the working age population is unemployed.

Furthermore, Foreign Direct Investment (FDI) into South Africa has, over the last two years, slumped by almost 25%, (Creamer, 2010). This aggregates the problem of jobless growth, which in essence, is not beneficial to SA's current situation. Moreover, infrastructure always has and continues to be, a key constraint to economic growth and sustainability in South Africa (Green, 2011). Entrepreneurs are however, flexible in dealing with poor infrastructure. Smaller firms are more labour intensive than larger firms, and therefore incur lower capital costs and require relatively lower levels of infrastructure in the job creation process.

Their ability to utilise labour in favour of capital makes them more likely to succeed in rural, as well as developing urban areas, where they are able to contribute to the spread of economic activity and a more equitable distribution of income within the economy (Abor and Quartey 2010:28).

Naudè (2010) affirms the position that entrepreneurs are the *main vehicle for economic development*, adding that as the number of entrepreneurs in an economy grows, so does the economy. Entrepreneurs in developing countries have more opportunities to exploit thus increasing the potential for entrepreneurship to contribute to decreasing unemployment and increase economic growth.

Abor and Quartey (2010) note that SMEs in South Africa produce up to 57 per cent of the country's Gross Domestic Product (GDP), and provide about 60 per cent of all employment. In this respect, entrepreneurs can be described as "*Efficient and prolific job creators, the seeds of big businesses and the fuel of national economic engines*", especially in a developing country like South Africa (Abor and Quartey, 2010).

Despite this, South Africa performs poorly on the Global Entrepreneurship Monitor (GEM) rankings. In 2009, South Africa ranked 35<sup>th</sup> out of the 54 GEM countries with a TEA (Total Early stage Entrepreneurial Activity) rate of 5.9%. This is significantly lower than the average for "efficiency driven economies": 11.2% and "middle to low income countries": 14.8%. According to Herrington *et al.* (2009) a country at South Africa's stage of economic development should have be expected to have a TEA rate in the order of 13%.

These conditions have prompted the South African government to focus on the promotion of entrepreneurship and small business as a “priority area” since 1994. As countries around the world commit, entrepreneurship should be an explicit focus of policy framework, policy interventions and implementation in South Africa. The GEM 2009 Report (Herrington *et al.*) point to the importance of ensuring effective and efficient government policies to contribute to an enabling environment for SMMEs. While this has been paid attention to in the past 17 years, the results (CDE, 2004) have been “disappointing”.

### **3. Entrepreneurship Policy**

There have been debates as to the role and importance of government intervention in an economy where entrepreneurs essentially provide the economic benefits associated with entrepreneurship. Pure economic performance is no automatic justification for public policy. The primary justification or rationale for government intervention is market failure or market distortions (Audretsch, 2007). While Smallbone (2011) notes that the concept of market failure is inappropriate for developing countries, it is clear that South Africa’s history of apartheid caused distortions in the “playing fields” of businesses. The rationale for government intervention in South Africa would therefore be to correct the distortions (race based) and the potential welfare gains to the economy through economic growth and development and increased social inclusion (Smallbone, 2011).

A decade ago, Stevenson and Lundström (2001:11) noted that entrepreneurship policy was an emerging domain of the economic development arena. Interest in entrepreneurship policy has been escalating since that time. Policy frameworks and policy initiatives to support entrepreneurship have evolved over time too. This paper attempts to develop a framework for entrepreneurship policy for South Africa (based on international practice) and then review South Africa’s policy interventions against the framework. Such a review will highlight the successes and or weaknesses of the policy choices we as a country make and guide the process for the future.

The domain of entrepreneurship policy is large. It encompasses interventions at different levels of government and the specific capabilities of government and partner agencies deployed to foster entrepreneurship vary widely and invariably cuts across government departments. Of course a major issue lies in the definition as entrepreneurship policy may refer to all government policies that affect entrepreneurs (as nearly all government actions and policies must obviously impact small firms) and the broad statements that support the development of entrepreneurship specifically. Stevenson and Lundström (2005); Audretsch, Grilo and Thurik, (2007) point to the lack of clarity concerning what constitutes entrepreneurship and confusion around the scope of entrepreneurship policy relative to SMME policy. Policy choices have ranged from traditional SME policy to the development and incorporation of entrepreneurship policy (Storey, 2004; Lundström and Stevenson, 2005; Smallbone, 2011).

In general, SME policies focus on a range of interventions to assist existing small and medium businesses, whilst entrepreneurship policies focus on individual entrepreneurs who may be at different stages of developing a business (Stevenson and Lundström, 2002; Smallbone 2011). More recently entrepreneurship policy has incorporated innovation policy (Dahlstrand and Stevenson, 2007; 2010; Stam, 2008).

Policy choices also focus on the extent to which governments choose to either provide direct assistance compared with initiatives that lower the „burdens“ or „barriers“ to entrepreneurship. Dennis (2005 reported in Storey, 2008) shows these in a 2x2 matrix representing choices to support directly or indirectly under conditions of high impediments or low impediments. The quadrants reflect the choices of countries in Dennis’s 2005 assessment.

**Table 1: Matrix representing Government's choices**

<i>Low Direct Assistance</i>	Developing Countries	USA
<i>High Direct Assistance</i>	EU	US minorities
	<i>High Impediments</i>	<i>Low Impediments</i>

Source: Dennis (2005) cited in Storey (2008)

Through the study of 10 different countries and their respective policies geared towards promoting entrepreneurship, Stevenson and Lundström (2002) identified four different approaches that were adopted by various governments. They described them as:

- SME Policy Extension, which refers to those programmes that are added on to existing support structures and mechanisms.
- Niche Entrepreneurship Policy, which addresses the barriers (mentioned above) to entrepreneurship and the focus on a specific sector such as technology.
- New Firm Creation Policy, which is focused on reducing barriers to business entry to facilitate the business creation process.
- Holistic or Generic Policy. This is a comprehensive and integrated approach to achieving all policy objectives for increasing the overall levels of entrepreneurship in a country. Such an approach was found evident in a few countries (Netherlands, Finland and Sweden) in the authors' successive study of 13 countries (Stevenson and Lundström 2005).

#### **4. Framework of Entrepreneurship Policy Measures**

What is clear from previous research is that there is a diversity of philosophies guiding the development of policies and indeed a variety of policy instruments selected for countries across the globe. It is also clear that attention needs to be focused on the development of a framework that incorporates the policy measures (OECD 2007).

Emerging from their research, Stevenson and Lundström (2005:60) developed six policy priorities (that were consistent in their previous research) which they then devise into a policy framework. These are:

- (1) entrepreneurship promotion: promoting an entrepreneurship culture
- (2) entrepreneurship education: promoting entrepreneurship in schools
- (3) the environment for start-ups: reducing barriers to entry, eliminating obstacles to business and tax reform,

- (4) start-up and seed capital financing: providing loans for new businesses and seed capital
- (5) business support measures for start-ups: providing business start-up support, such as incubators, networks and start-up portals,
- (6) target group strategies: target underrepresented groups and techno-starters

Hoffman and Gabr, (2006) use the five drivers of entrepreneurship to develop similar categories of entrepreneurship. They are: Opportunities, Capital, Ability, Incentives, and Culture.

UNCTAD (2009) has been exploring the development of entrepreneurship frameworks for a while. They disseminated a “suggested policy framework relevant to all countries”. This framework comprised:

- General entrepreneurship policy (including enabling environment)
- Awareness and network building
- Access to Finance
- Entrepreneurship education and skills
- R&D technology transfer
- Regulatory environment

However, upon examination of the frameworks one may conclude that these measures are actually a set of policy instruments to achieve specific objectives in entrepreneurship development.

Clearly what is first needed is the development of a policy framework. A policy framework may be described as a collection of all policies to achieve a set of objectives (UNCTAD, 2011). These objectives (related to entrepreneurship) in a developing economy like South Africa are wide and range from economic development to alleviate poverty to encouraging entrepreneurs that could become internationally competitive. Such a framework for entrepreneurship policies must of necessity be a cohesive one in which entrepreneurship is integrated into all facets of the economy. In addition, all policy measures must be offered consistently and seamlessly to

entrepreneurs, never mind their stage of growth or indeed their level of operation. Thus Audretsch *et al.* (2007) argue “rather than focus on the addition of entrepreneurship policies to the arsenal of public policy instruments, the debate should rather focus instead on the changing role of public policy in the entrepreneurial economy” (p3).

It is thus important to examine the goals a government designs to move towards and entrepreneurial economy. If as identified by Stevenson and Lundström (2007) governments are looking to entrepreneurship to address a range of problems including poverty alleviation, employment generation, labour force integration, social cohesion, innovation and wealth creation, then entrepreneurship policy must be much wider than it currently is.

In this context, a framework for entrepreneurship is conceptualized below in Table 2.





This framework proposes the incorporation of the economic development and science and technology into the traditional entrepreneurship domain. This is done in light of the objectives of government and in the context of the development and growth of business from survivalist through to small and medium to those wanting to be internationally competitive. Such a framework ensures that entrepreneurship is horizontally embedded. The framework describes policy programmes to achieve the desired objectives and the government capability normally assigned the tasks. In this framework education is presented as a cross cutting theme and policy measure by virtue of the positive impact of education on all levels and types of entrepreneurship. Such a framework will deliver a coherent and integrated set of measures to support entrepreneurship and innovation in the country.

## **5. Examination of Entrepreneurship Policy of South Africa**

The effectiveness of policy in a country is assessed through evaluation, which seeks to measure the relevance, efficiency and effects. Evaluation (generally under the rubric of monitoring and evaluation) allows an assessment of the benefits to the larger society resulting from an investment in support for entrepreneurship.

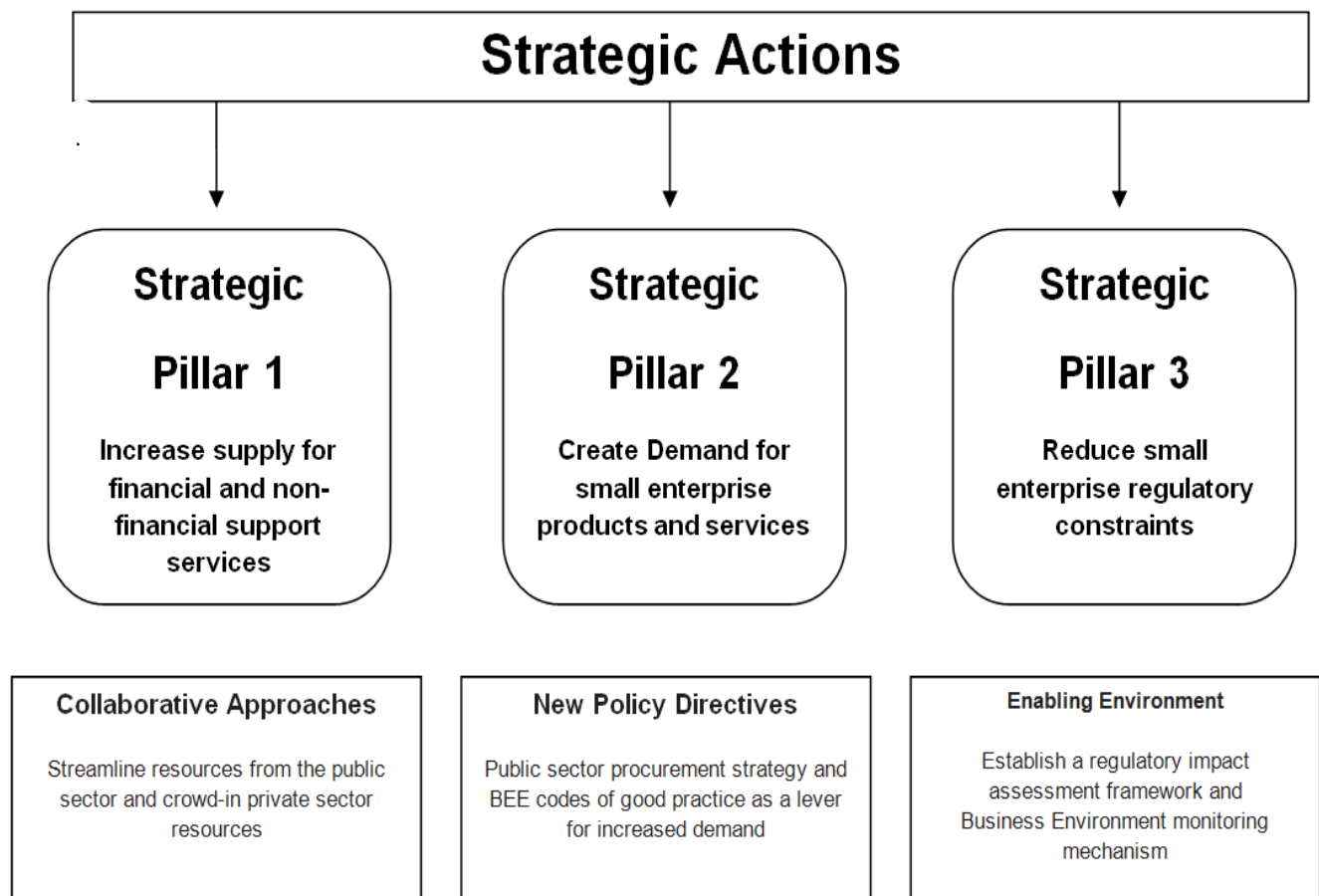
This section of the paper will attempt an assessment of entrepreneurship policy in South Africa, in the context of the framework presented above. The attempt at evaluation is not a comprehensive one. Indeed, it may be described as a preliminary to the first step in Storey's Six Steps to Heaven (Storey, 1999) as it documents the research on policy in terms of what is available to South African entrepreneurs and SME owners. It describes the available research that attempts assessment. Some comments are afforded on the development of a comprehensive impact assessment programme later in the paper.

### **5.1 South Africa's Strategy for Entrepreneurship**

The South African government has since the birth of its democracy recognized the importance of fostering an enabling environment for the creation and growth of small enterprises. In March 1995 the government articulated the policy and measures to foster an enabling environment in the South African National White Paper on Small Business. The Department of Finance (at about the

same time) implemented the Growth, Employment and Redistribution (GEAR) strategy, a macroeconomic policy aimed at strengthening economic development, redistributing socio-economic opportunities and improving employment (Knight, 2001). This paved the way for the launch of a variety of new support measures and initiatives for small businesses in the economy (Rogerson, 2004). South Africa’s more recent strategy to promote entrepreneurship by the Department of Trade and Industry, the *Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises* (DTI, 2007) aims to foster a more enabling environment for the development of entrepreneurship and small business. The core thrust of the strategy has been focused on “*improving access to small business support and information, strengthening small business advocacy, delivering effective service and monitoring impact.*” (DTI, 2007:5). The strategy based on three fundamental pillars, as seen in the figure below gives life to this integrated strategy.

**Figure 1: Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises**



Source: DTI 2007

## **5.2 Entrepreneurship Measures**

Within the traditional definition of entrepreneurship and SME policy several measures or policy instruments are defined that impact entrepreneurship. These are the components of the frameworks defined by previous authors and appear in the mid section of the proposed framework. While there has been several measures initiated in the past, GEM SA (Herrington *et al.*, 2009) recommend policy measures that will enhance South Africa's entrepreneurial profile. A re-examination and reconfiguration of access to finance; supporting high growth ventures; dealing with crime; liberalisation of the labour market; simplify business registration; incentivising entrepreneurship; increasing government capacity for effective delivery; entrepreneurship education and training have been proposed in the GEM report. This section of the paper reviews the available research on each (or group of) the policy interventions of the proposed framework.

### **5.2.1 Entrepreneurship Promotion and Business Support**

According to the Integrated Strategy, "the promotion of entrepreneurship and small business remains an important priority" (DTI, 2005:3). There is broad consensus on the delivery of enterprise supporting mechanisms of government with agencies like Small Enterprise Development Agency (SEDA); the National Youth Development Agency (NYDA) and its various entrepreneurship development initiatives (CDE, 2007). The Small Business Enterprise Development Agency (SEDA) succeeded Ntsika Enterprise Promotion Agency, (DTI, 2007:5). Based on a number of delivery points located throughout the country, SEDA provides a range of non-financial support services to the SMME sector. SEDA's mission is to "*develop, support and promote small enterprises throughout the country, ensuring their growth and sustainability in co-ordination and partnership with various role players, including global partners, who make international best practices available to local entrepreneurs*" (SEDA, 2011). Oosthuizen (2010) notes that both government and the private sector have engaged in many initiatives aimed at promoting entrepreneurial development and increasing entrepreneurial activity. However, whilst there is a growing consensus regarding the importance of entrepreneurship to economic development, the desired results of these initiatives have not been achieved. Endeavour SA (2010:5) adds that the cultural norms in South Africa do not support entrepreneurs who have failed.

This stereotype, it is argued, is not conducive to promoting an entrepreneurial mindset amongst citizens.

*“People disassociate themselves from them, banks shut them down and the press demonises them”.*

Despite these negative stereotypes, a recent survey by the Branson Centre of Entrepreneurship (2011) entitled “young Upstarts” noted almost 65% of young people were *keen* to start their own businesses. These young people however, lacked the relevant role models and mentors to provide them with assistance. It was also quite interesting that of the top 10 role models, 5 were American magnates. A positive finding on entrepreneurial propensity was arrived at in the Mahadea (2011) study too. The authors focus on the effects of socio economic attributes of high school learners on their propensity for entrepreneurship. They find that gender, ethnic background, role models and business skills are significant factors influencing high school learners’ propensity to venture into self employment in the future.

### **5.2.2 Entrepreneurship Education**

Almost all policy analysts have noted entrepreneurship education as among the most important policy instrument in promoting entrepreneurship. The 2009 GEM report found that education in general and entrepreneurship education in specific, were key constraints to entrepreneurial activity in the country. The report also acknowledged that poorly conceptualised and implemented educational policies have a marked impact on business efficiency in the SMME sector. Gibb (2008) notes the importance of a model of entrepreneurship education embedded in curricula from primary through secondary, further to higher education. South Africa is no exception as learning institutions at all levels come under pressure to develop and provide entrepreneurial skills (Pretorius, 2008). Entrepreneurship has been introduced into the curriculum of primary and high schools since 2000 as part of the Economic and Management Sciences (EMS) curriculum (DoE, 2002: 14). Since 2005, entrepreneurship has also been included in the curricula as part of Business Studies (DoE, 2003:12). The 2004 GEM Report quotes research by Friedrich *et al.* (2004) that suggested widespread problems in establishing entrepreneurship in schools. The authors found that more than 50% of the sample schools offered no

entrepreneurship education at all (Shay and Wood, 2004). Gouws (2002) referred to the lack of teacher preparedness for entrepreneurship education at school level.

North (2002) reviews public and private sector entrepreneurship education initiatives in South Africa over a decade. He includes a review of learner perceptions to the exposure to entrepreneur education and concludes that entrepreneurship education in South Africa is based on “sound pedagogical principles”.

Entrepreneurship at the higher levels of high school have been also been examined by Isaacs *et al.* (2007). They found interestingly that some 60% of high schools offered no entrepreneurship exposure at all despite it being a learning outcome of the Economic and Management Sciences curriculum.

The situation in higher education institutions has seen mixed evidence too. Ndedi (2009) makes a case for institutions of higher learning to tackle the problems of unemployed graduates through entrepreneurship education. Kabongo and Okpara (2010) in an interesting investigation of entrepreneurship offerings in higher education institutions in sub Saharan African universities, found that most of the 58 universities that they investigated through their online assessment, offer courses in entrepreneurship or small business management but few offered specialization in entrepreneurship. These authors describe the offerings as “comprehensive” but define them as “consistent with the environmental school of entrepreneurial thought” in view of their provision of minimal information and training compared with the offerings of higher education institutions in the USA. Co and Mitchell (2006) found positive perceptions of and an increased commitment to entrepreneurship education held by academic staff at higher education institutions. They describe entrepreneurship education as being in its “early stages” of development and encourage collaborative development of programmes.

Ladzani and Van Vuuren (2002) examine training in entrepreneurship provided by SME service providers in the Northern Province of South Africa. They find only a small proportion offering “significant entrepreneurship training” (training covering motivation, entrepreneurial skills and business skills). They suggest revisions in training materials and encourage higher education

institutions to strengthen an entrepreneurial culture. Dhilwayo (2008) suggests that such training and education should be experiential in nature as conceptualized in work integrated learning.

### **5.2.3 The Environment for Start-ups**

South Africa ranks 34<sup>th</sup> of 183 economies in terms of the ease of doing business. In terms of starting a business, South Africa is placed at 75<sup>th</sup>. It takes an estimated 37 days to register a business, during which 6 procedures need to be followed. Relative to the rest of Sub-Saharan Africa, it is easy to start a business in South Africa (World Bank, 2011). Pillar 3 of the *Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises* (DTI, 2007) focuses on developing an enabling environment for entrepreneurs by reducing the regulatory constraints facing entrepreneurs and small firms.

However, Mahadea (2008) has identified factors in South Africa's regulatory environment that negate the effectiveness and impact of policies aimed at promoting entrepreneurship and ease of doing business in South Africa. Respondents note the particular burden of VAT, income tax, the Unemployment Insurance Fund (UIF) and the Skills Development Levy. The study highlights the additional burden of tax compliance both directly and indirectly (time, money and opportunity costs).

Additionally, the 2009 GEM report identified South Africa's restrictive labour laws as a major constraint to the growth of small business. Government regulation in South Africa is not in-sync with policies aimed at promoting entrepreneurship. GEM (2009) suggests that not enough is being done to reduce the negating effects of the regulatory environment (GEM Report, 2009).

### **5.2.4 Start-up and Seed Capital Financing**

Surveys of potential entrepreneurs suggests that access to funding is one of the major hurdles in starting or indeed expanding business. This has prompted focus of attention on financing policy instruments across the globe. South Africa's mechanisms have been integrated into public strategy (Ray, 2010). *Khula Enterprise Finance*, established by the DTI in 1996, is a wholesale finance institution, attempting to bridge the "funding gap" to SMEs ([www.khula.org.za](http://www.khula.org.za)). The Apex Fund, (established in 2006) provides funding to the micro-enterprise sector (Ray, 2010).

Additionally, the National Empowerment Fund ([www.nefcorp.co.za](http://www.nefcorp.co.za)) and the Umsobomvu Youth Fund ([www.uyf.org.za](http://www.uyf.org.za)), (now the Youth Empowerment Fund) provide funding for black and female entrepreneurs aged 18 to 35. For the period 2008 to 2009, approximately R508 million was appropriated to SEDA, the Apex Fund and Khula Enterprise Finance.

### **5.2.5 Target Group Strategies**

Pillar 2 of the Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises comprises South Africa's target group strategy through Black Economic Empowerment (BEE), and more recently, Broad-based Black Economic Empowerment (BBBEE) and within this framework, Government's, preferential Public sector procurement strategy (DTI, 2007) . According Gunguluza (2011), South Africa is currently experiencing the emergence of a new Black Entrepreneur culture. These new entrepreneurs are increasingly benefiting from the policies aimed at empowering the previously disadvantaged. "Entrepreneurship is the only way to go in a society where jobs are scarce, but opportunities are vast and varied" (Gunguluza, 2011). The Foundation for African Business and Consumer Services (FABCOS), encouraged the private sector to play a role in supporting the growth of SMME's. Furthermore, they suggested that in the interest of economic growth, all BBBEE stakeholders should be encouraged to employ flexible systems that advance market access to SMME's. These include, *inter-alia*; the simplification of registration documents to be on supplier databases; introduction of a rotation system that increases the reach for SMME's to benefit from procurement within a fair, impartial framework; adherence to payment timelines, and, a tax relief for SMME's entering the field for the first time to help them survive „teething problems“. (FABCOS, 2009)

### **5.2.6 Micro enterprise development for Poverty Alleviation (LED)**

Interestingly, the *Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises* pays attention to micro enterprise development at the heart of micro economic reform. More importantly, geographical focus, particularly in areas of high poverty and unemployment, is paid special attention (DTI, 2007)

Rogerson (2011) notes that although Local Economic Development in South African cities is strongly inclined toward pro-growth, there also strategies in place that are pro-poor focused.



Accordingly, pro-poor interventions are aimed at strengthening the asset base of poor communities. Among these welfare interventions, Rogerson (2011:13) notes the following entrepreneurship interventions:

*“Improved delivery of infrastructure which maximises opportunities for both employment creation and SMME development in disadvantaged areas; Creating an improved regulatory environment for SMMEs in general; Setting aside municipal land and facilitating the activity of urban agriculture and Local government policy intervention to provide a more facilitative environment especially for the functioning of survivalist enterprises”*

### **5.2.7 Innovation**

It is widely accepted that in the new knowledge economy innovation is key to economic growth. Several calls have been made for an integration of innovation and entrepreneurship policy and some work has advanced in this area (Audretsch, 2004; Dahlstrand and Stevenson, 2010; Wilson, 2010).

South Africa has a National System of Innovation since 1996 and has implemented a number of incentive systems for innovation (SPII; Innovation Fund; THRIP; PII) ([www.dst.gov.za](http://www.dst.gov.za)). A National Advisory Council on Innovation (NACI) and the Technology Innovation Agency (TIA) have been established and these focus on innovation and entrepreneurship. Comins (2011) comments that South Africa appears to have achieved much, it must challenge the “commercialization chasm” in an aligned way. Marcelle (2010) notes concern at the impact of policy and performance on the SMME sector despite the sophistication of support measures.

The documentation above suggests that there is a comprehensive set of policy instruments in each of the areas of SMME development, Local Economic Development and Innovation.

## **6. Impact Assessment of Entrepreneurship and Small and Medium Enterprise Policy**

The above review attempted a documentation of interventions in the proposed entrepreneurship policy framework. The next stage in the evaluation process is generally to undertake an impact assessment of entrepreneurship policy.

Some impact assessments of specific policy measures have been undertaken in South Africa. Those focussing on finance, training and the regulatory environment have been reviewed by Rogerson (2008) who calls for research into the evaluation and more importantly continuous review of the effectiveness of government programmes.

The DTI's Director-General, Tshediso Matona, conceded that despite the substantial investment in entrepreneurship, the results have been disappointing. Given the needs and challenges, policies to promote entrepreneurship were not able to make an impact (Business Environment Specialists, 2009). The 2009 GEM Report, *Tracking Entrepreneurship in South Africa*, revealed that government itself, had admitted to unsatisfactory results in its endeavour to support small businesses.

Rogerson (2004) in a comprehensive assessment of South Africa's SMME programmes for a decade concludes data inadequacies that hamper a full impact assessment of the policies. He does however suggest that existing SMME programmes have been biased towards medium and small sized enterprises rather than on micro enterprises.

While the evaluation of policy instruments delivers an assessment of the effectiveness of specific measures overall evaluation of entrepreneurship policies is needed that provides evidence of the general direction of entrepreneurship policies in a region. From the lack of clarity in the assessments to date, it is clear that what is needed is the measurement of a set of indicators formulated on the basis of the objectives for the specific measures/ instruments. A number of researchers/ policy makers have begun looking at standard indicators: Global Entrepreneurship Monitor (GEM) data; Global Entrepreneurship Development Index (GEDI); The World Bank Group's Entrepreneurship Survey (WBGES); Global University Entrepreneurship Spirit Survey

(GUESS); OECD Entrepreneurship Indicators Project (EIP). The goal of these indicators is to develop evidence based research to guide refinement of policy. South Africa in particular needs to develop a set of indicators and document information that will provide the evidence base for both policy assessment and policy refinement.

## **7. Conclusion**

The GEM study is South Africa's only international indicator of entrepreneurial intensity. By GEM standards South Africa ranks poorly in both opportunity entrepreneurship and new firm activity. This despite the documentation above that reflects the wide range of policy instruments to foster entrepreneurship. The research reviewed does reflect some inconsistencies as academic research is generally ad hoc and location specific. This makes it critical for South African policy makers to pay serious attention to the development and monitoring of a policy environment that is enabling and one that enhances entrepreneurship and innovation. South Africa's particular circumstances and policy goals requires an entrepreneurship policy that is horizontally embedded. Such a framework is proposed that incorporates local economic development on one hand and innovation for international competitiveness on the other.

The review of the evidence on the policy instruments suggests that South Africa needs to develop a set of indicators (that are comparable with international statistics) that should inform a thorough assessment of entrepreneurship policy and provide the evidence for policy reform.

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# **SMALL HOSPITALITY ENTERPRISES AND THE INTERNET: AN IT GOVERNANCE MODEL FOR CONDUCTING BUSINESS ONLINE**

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## **SMALL HOSPITALITY ENTERPRISES AND THE INTERNET: AN IT GOVERNANCE MODEL FOR CONDUCTING BUSINESS ONLINE**

### **ABSTRACT**

The Internet has made a considerable impact on how business is conducted. Empowered by technology, customers are using the Internet to communicate and transact online. Small and Medium Hospitality Enterprises (SMHEs) within the tourism industry stand to benefit from using the Internet. However, SMHEs are noted for their failure to derive optimal benefits from using the Internet to improve their competitiveness. Internet technologies can be used to improve business efficiency or effectiveness (Buhalis and Law, 2008) and this can have a direct impact on an SMHE's ability to compete. Necessitated by the importance of SMHE's contribution in the economies of developing countries (Frempong, 2009), this paper highlights the ICT adoption challenges experienced by SMHEs, and identifies those Internet technologies which can be applied to the SMHE context. This study resulted in the development of a model to be used by SMHEs as a guide when making the decision to adopt technology. This model is based on the examination of existing theories and models such as; the Delone and McLean IS success model (2004), and the ITGI's (2007) IT governance focus areas model. A combination of qualitative and quantitative methods was used and data was collected using literature surveys, questionnaires, semi-structured interviews, and observation.

**Keywords:** IT Governance, ICT Tourism, Hospitality Enterprises, E-commerce.

## INTRODUCTION

Technology advancements and in particular the Internet, have revolutionised how business is conducted. By using technology, Small and Medium Enterprises (SMEs) stand to gain unprecedented new opportunities for business development and competitive advantage (Martin, 2004). According to Kim, Chung, and Lee(2010, p1) “Currently there are 1.46 billion Internet users in the world; this figure has increased by over 305.5% from the Internet World figures released in 2000.” With these dramatic developments in the usage of the Internet by individuals and businesses, no business can afford to overlook the Internet as a tool than can be used to help meet their objectives.

The hospitality sector within the tourism industry is an important component in the economy of developing countries. The contributions made by SMEs towards job-creation, reduction of poverty, and the wider distribution of wealth opportunities make the SMEs in developing countries vital contributors to the economy (Diaz, 2001; Okello-Obura, Minishi-Majanja, Cloete and Ikoja-Odongo, 2008; Frempong, 2009). In the case of this study the SMEs considered are in the hospitality sector of the tourism industry, referred to as Small and Medium Hospitality Enterprises (SMHEs).

Internet technologies have the potential to help SMHEs enhance service quality, reduce costs, improve productivity, gain competitive advantage, and increase profitability. Tiessen, Wright, and Turner (2001) and Singh, Pathak, and Naz(2010)acknowledge, that the use of Internet technologies and globalisation have brought new challenges as well as new competitive opportunities for SMEs. It is increasingly evident that even SMHEs can no longer continue to ignore technological advancements that directly affect the tourism sector as this creates a competitive disadvantage that may lead to an accelerated decline of the business (Buhalis, 1998; Murphy and Kielgast, 2008).

E-commerce solutions are suggested as an alternative ICT strategy for SMHEs. However, “Internet technologies alone cannot create value in a firm whose strategy does not match expectations” (Schlenker and Crocker, 2003, p7). This implies that if a businesses“ strategy is

aligned to client expectations and Internet technologies, this should result in added value to the business. The deployment of any technological solution must be linked to the overall strategic objectives of the business. Kyobe (2008) deems the attainment of this alignment as crucial to the success of a business. This paper will provide firstly a theoretical foundation on aspects relating to the Internet and the adoption/use of the Internet by SMHEs, followed by a brief overview of the methodological approach of this study, and finally a discussion of the findings and conclusions.

## **RESEARCH PROBLEM AND OBJECTIVES**

The problem identified is that SMHEs do not derive the full benefit from using the Internet as a business tool which could improve their competitiveness. Despite the increased promotion of the Internet, hospitality enterprises do not utilise the Web as an effective business tool (Schmidt, Cantalops and Dos Santos, 2008; Kyobe, 2008; Murphy and Kielgast, 2008).

The purpose of the study was to develop an appropriate IT Governance model for SMHEs so that they benefit from using the Internet. This study attempts to establish that a positive link exists between the use of Internet technologies by SMHEs and their competitive advantage. Recommendations culminated in the development of a model that acts as a guide for SMHEs when aligning Internet technologies with business strategy in order to gain this competitive advantage.

## **THEORETICAL BACKGROUND**

This section identifies factors that influence ICT adoption by SMHEs. The discussions include the information and technology needs of SMHEs, E-commerce applications, ICT adoption challenges relevant to SMHEs, Internet technologies relevant to SMHEs, alignment of Internet technologies to business objectives, and finally how competitive advantage can be gained from using ICT.

## **Internet Adoption**

According to Salwani, Marthandan, Norzaidi and Chong (2009), within ICTs the Internet is the most cost-effective tool that can help SMEs to access larger markets and gain a better competitive advantage. The Internet has opened a communication and trade portal that allows businesses and customers to interact (Internet marketing) and trade (e-commerce). The Internet plays a sizeable role in influencing the purchasing decisions of hospitality sector customers. Buhalis and Law (2008) define the role of the Internet on travellers' behaviour as one of the most influential technologies. SMHE owners/managers are pressurised to adopt Internet technologies for business because consumers of hospitality products rely on the Internet prior to making the decision to buy, whilst processing the purchase transaction, as well as for post sale support.

## **Information vs Technology Needs**

Tourism e-commerce is a highly information intensive area and researchers in this field (Kim *et al.*, 2010; Xiang, Gretzel and Fresenmaier, 2009) raise a key question, which they claim to be of the utmost importance for businesses when implementing Internet technologies. Does the information currently available online match the information needs of customers? Jayawardena, Patterson, Choi and Brain (2008) state emphatically that to be economically viable, hospitality enterprises must meet the needs of customers. As Internet usage among travellers increases, frequent travellers have a higher likelihood of using the Internet for travel planning purposes (Kaplanidou and Vogt, 2006). Empowered by the Internet, the new traveller has become more knowledgeable and is seeking value for money and time (Buhalis and Law, 2008).

## **E-commerce and the SMHE**

A simplified yet effective definition of e-commerce is provided by Cloete (2001, p2) that is still relevant; it is defined as "the exchange of electronic information between parties, normally followed by the exchange of goods and payment transactions." SMHEs make limited usage of Internet technologies according to Schmidt *et al.* (2008). They venture that SMHEs use their



websites primarily for two reasons, promotion and point-of-sale. According to Wu, Wei and Chen (2008), promotion or web based advertising has refined how hospitality products are delivered. However Fresenmaier (2007) challenges this view and suggests that tourism advertising should move beyond the provision of information to stimulating the potential customer mentally with likely events that will engage the customer in the destination. Although SMHEs make limited usage of the Internet as a business tool, listed below are some of the most popular attributes of accommodation provider websites (Law, Qi and Buhalis, 2010; Buhalis and Law, 2008):

- reservations;
- contact information;
- promotions; and
- information on products and services.

The Internet has opened a door for SMHEs to improve their service offering to travel customers and gain access to international markets.

### **ICT adoption challenges for SMHEs**

The identified challenges are ICTs adoption challenges which are also relevant for e-commerce adoption by SMHEs. The informal content analysis performed showed that the ICT adoption constraints of SMHEs include: enterprise attitudes, perceived risk, time, size and limited resources, overreliance on intermediaries, lifestyle choice of the owner/manager and security. The three most prominent challenges are: *Size and limited resources*, and *Enterprise attitudes*.

Table 1: ICT adoption challenges commonly experienced by SMEs and supporting authors

	Researchers	Enterprise Attitudes	Perceived Risk	Time	Size and limited resources	Overreliance on intermediaries	Owner/Manager Lifestyle of	Security
1.	Salwani <i>et al.</i> (2009)	X						
2.	Murphy and Kielgast, 2008	X			X		X	
3.	Vrana and Zafiroopoulos (2006)	X						
4.	Karadag, Cobanoglu and Dickinson (2009)		X					
5.	Irvine and Anderson (2008)			X	X	X	X	
6.	Buhalis and Law (2008)	X		X				X
7.	Shalhoub, (2006)		X					X
8.	Minghetti and Buhalis (2010)	X				X		
9.	Moriarty, Jones, Rowley, Kupiec-Teahan (2008)				X		X	
10.	Niininen, Buhalis and March (2007)				X			
11.	Schmallegger and Carson (2008)				X			
12.	Rufaro, Chiware and Dick (2008)				X			
13.	Kim <i>et al.</i> (2010)							X

### Internet technologies for SMHEs

The SHME owner/manager will be faced with a difficult decision when selecting which Internet technologies are best suited to his/her business. Technologies which can be applied to the SMHEs context are discussed below. The technologies mentioned in the discussion below are not entirely exhaustive of all Internet technologies that can be applied to SMHEs; nonetheless a few were identified based on the most commonly discussed and summarised in the following table.

Table 2: Internet Technologies Summary

<b>Search Engine Marketing</b>	Murphy and Kielgast (2008) note that many customers tend to search online for their hotel rooms, and it is critical that SMHEs maximise visibility on the Internet through Search Engine Marketing (SEM).
<b>Electronic Word-of-Mouth (Blogs)</b>	Carson (2008) defines blogs as the practice of maintaining online journals, and the person who writes the blog is called a blogger. Blogs contain primarily textual content and graphics (pictures) but videos can also be found in some.
<b>Online Bookings</b>	The Internet has created a platform which can be used by SMHEs not only to

	provide information but also to initiate sales online. Law (2009) contends that the ability to make accommodation bookings online has made a distinctive impact on travel and tourism.
<b>Internet for Communication (Online Queries)</b>	The Internet supports both synchronous and asynchronous communication (Chalkiti and Sigala, 2008). Communication can be stimulated with customers by using: <i>user accounts, online surveys, customer profiling, and customer complaints</i> . In order to achieve synchronous communication the customer has to be willing to part with some personal information.
<b>Social Networking</b>	Stolley (2009) refers to online applications that allow for social networking such as Social Media Applications (SMA). The SMA allows for customer to customer; customer to business and business to customer communication.
<b>Media and Content Syndication (RSS)</b>	Warr (2008) describes an RSS (Really Simple Syndication or Rich Site Summary) document, which is called a 'feed', 'web feed' or 'channel', as a web page that contains either a summary of content from an associated website or the full text.
<b>Internet-Based Services</b>	Chalkiti and Sigala (2008) note the following services that can also be performed online: E-mail, Texts (Short Messaging Services), Chats, Forums, and Fax to e-mail.

### **Aligning Internet technologies to business objectives**

SMHEs also exhibit the common characteristics of SMEs found across any business sector because they are classified as small enterprises. Zehrer (2009) acknowledges that SMHEs exhibit some positive business practices such as continuity, good employee relationships, familiarity with customers and prompt decision making; however they often lack expertise in strategic management. Moriarty, Jones, Rowley and Kupiec-Teahan (2008) emphasise the importance of planning as it provides a sense of direction and clarifies management thinking. However, time for planning in SMHEs is not always prioritised. Kyobe (2008) goes further and proposes that business strategic planning is not practised in SMHEs due to poor skills, limited resources, and manager/owner's short term focus. To ensure that the ICT investment decisions taken will support the overall objectives of the business, SMHE owner/managers must prioritise planning. De Haes and Van Grembergen (2009) interpret Business/IT alignment as the process of developing and sustaining a symbiotic relationship between business and IT in order to gain a

competitive advantage. Kyobe (2008) defines this process as ensuring that the choices made (acquiring and deploying IT) are consistent with business goals, organisational factors, and the external environment.

### **Competitive Advantage**

An improvement in quality of available information or the ability to process or employ information (Service and Maddux, 1999) can influence productivity and competitive position. However, Vrana and Zafiroopoulos (2006) caution that building a website and advertising it does not guarantee an audience, nor an effective revenue stream, or a competitive advantage. By providing an affordable platform to differentiate their product from that of competitors, Buhalis and Law (2008) are of the opinion that ICTs play a critical role in the competitiveness of tourism organisations and destinations.

With all these recommended strategies as a source of competitive advantage, one fundamental principle will always lead to a competing advantage; if a destination website is perceived as useful, it may influence the customer to visit the destination (Kaplanidou and Vogt, 2006). Three website features have a positive impact on perceived usefulness (Kaplanidou and Vogt, 2006); *Navigation* (ease of accessing information), *Content* (text and visuals contained in the website) and *Accessibility* (time taken to download the website features and web pages).

In contrast, Jayawardena *et al.* (2008) recommend three strategies (not dependent on the user) that SMHEs can implement to improve their competitiveness: *Clearly define targeted consumers, distinguish the benefits of their product, and establish a strong brand.*

### **RESEARCH METHODOLOGY**

Both qualitative and quantitative data collection methods were used for this study. The applicable data collection strategy used in this study is called triangulation when two or more methods of collecting data are used (Cohen and Manion, 1994). This study used triangulation to collect data from multiple sources, including a questionnaire with open-ended and closed questions, focus

group interviews, document analysis and observation in order to improve validity of the study. Where the methods overlap, application of triangulation is found.

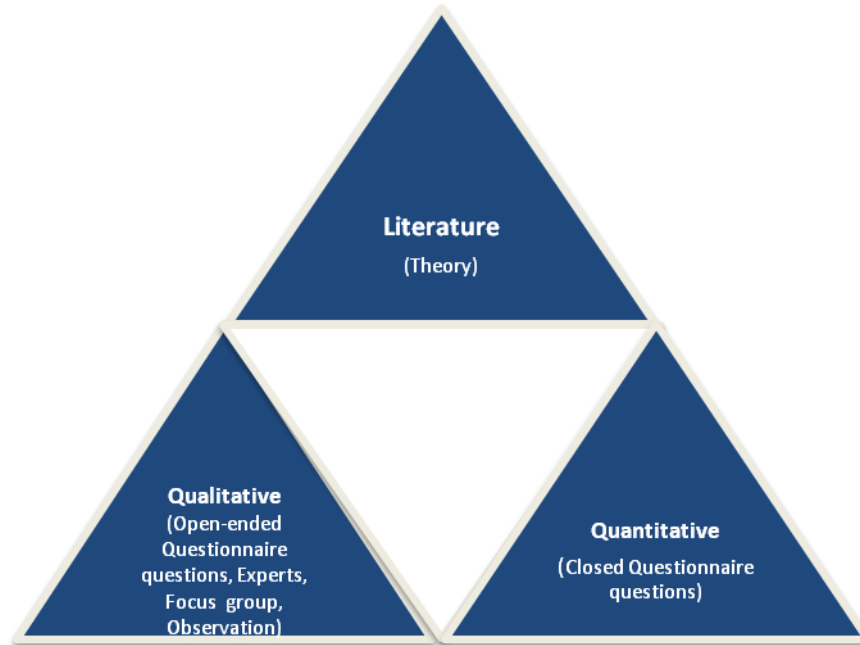


Figure 1: Research methodology summary

The quantitative approach involved the use of closed questions in the questionnaire, and a review of relevant literature. The questionnaire acted as a foundational source of quantitative information; in addition, qualitative data collection methods were also used. The qualitative approaches include semi-structured interviews and observation of respondents' websites.

The analysis stage involves the breaking up of data into manageable themes, trends and relationships (Mouton, 2005). The data collected was analysed in order to identify trends, and to identify and categorise the responses according to the themes derived in the literature. Combinations of table summaries and graphs were applied to provide a graphic representation of participants' responses. A coding system was developed to help identify patterns from the questions which provided a list of options to choose from. This system allowed for the effortless identification of patterns which could be easily interpreted. This study adopted Creswell's (2009) 7 steps for presenting a qualitative analysis of the collected data. Responses to the semi structured questions were grouped according to a visible pattern of common themes. A spreadsheet was used to document all responses from both the questionnaire and the interviews. Responses to

closed questions were provided through the application of descriptive statistics only; no Chi-square or t-tests were conducted. Responses to the open-ended questions were shown on tables to reflect direct responses. Results from the focus group interviews were also shown on tables as direct responses. Observations were reflected through anecdotal records and expert opinions were provided in tables.

Although all data collected was well within the predefined scope of this study, the following limitations were identified:

- ✓ The geographic spread of the participants of the survey was concentrated in the Buffalo City local municipality which represents 1 out of 37 local municipalities in the Eastern Cape; and
- ✓ Only 40 participants participated in the survey.

The limitations noted above have had no negative effect on the findings of this study.

## **EMPIRICAL RESULTS**

### **Questionnaire findings**

#### **Section 1: General business background**

The following information gives a partial view of the broad ICT scenario within the participating SMHEs. The response results relating to broad ICT usage by SMHEs showed that 85% had faxes, 60% had websites, and 95 % had email addresses used for business purposes. These results exhibit interesting ICT adoption behaviour on the part of the SMHEs. The fax can be considered as a technological tool that is so commonly accepted by both private and business users and similar to other technological tools (e.g. telephone, television), that it is hardly considered an ICT device. It is therefore not surprising that such a high percentage (85%) of SMHEs use faxes. However, a noteworthy finding is that the use of email surpasses that of other technological tools that have been around for decades, like the fax machine. Ninety five percent of the respondents indicated that they had email addresses. Unsurprisingly, 60% of the responses indicated that they had a website. This figure serves to confirm the identified problem of this study that SHMEs do not take full advantage of the opportunities Internet technologies present for businesses.

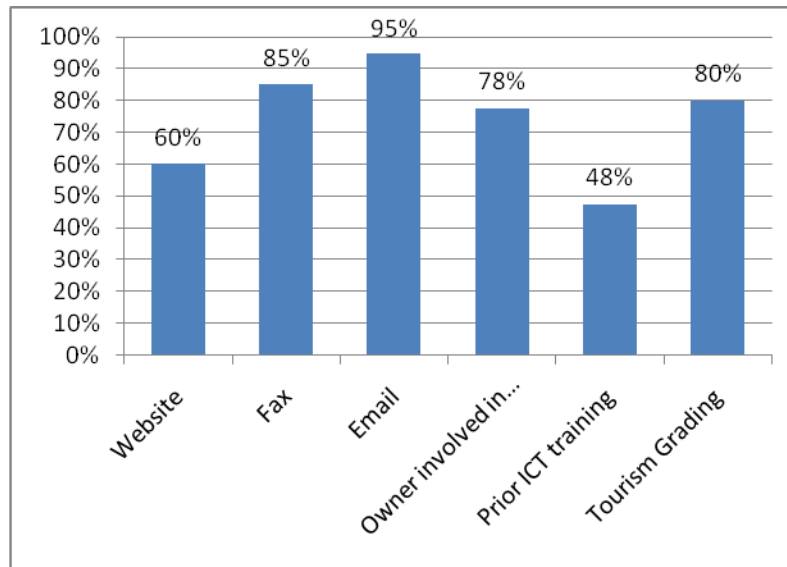


Figure 1: Questionnaire results (General business Background)

Why the identified research problem exists can be attributed to certain factors that influence ICT adoption. From this section of the questionnaire three possible factors can influence ICT adoption namely: *Owner involvement*, *Owner/manager prior ICT training*, and the *Tourism Grading Council* (cf. Figure 2). The responses indicated that in 78% of the businesses the owner was also the manager; only 48% of the owner/managers had prior training (whether through short or long term courses); and 80% of the SMHEs were graded by the TGCSA. Therefore the following deductions can be made;

- SMHE owner/managers with limited formal (training) exposure make the decision to invest in ICTs,
- The responsibility of making an ICT investment in the majority of SMHEs, still lies with the owners who are also managers of these businesses, and
- Industry regulators like the TGCSA can influence the investment decisions made by SMHEs. Eighty percent of participating SMHEs have been graded by the TGCSA because to operate in the hospitality sector, a star grading by the TGCSA, albeit voluntary, is the minimum acceptable standard.

## Section 2: Technological context

Factors influencing the decision to invest in technology have been grouped into three categories in the questionnaire namely: *Technological context*, *Organisational context* and *Environmental context*. In this section only those factors related to technology will be discussed. Details on the Internet technologies applied on the SMHE websites will also be analysed and discussed.

### What has influenced the investment in ICT for SMHEs?

With the majority of SMHE owners involved in the management of their businesses, they play a significant role in all decisions made. When asked what the main influencing factor is before ICT investment decisions are made, the responses show (*cf.* Figure 3) that 73% of ICT investment decisions were based on the owner/manager's own experiences. Some businesses consider other factors such as referrals, or industry recommendations.

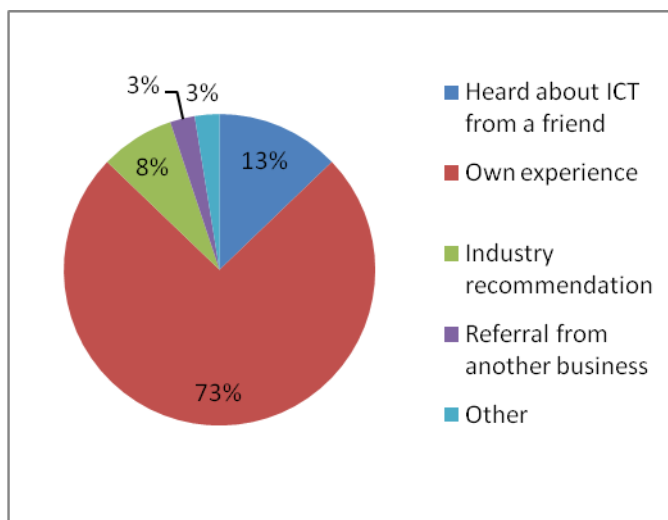


Figure 2: Influences of ICT investments in SMHEs.

### What initiates the investment in ICT for the business?

Certain triggers will force a commitment from SMHE owner/managers to invest in ICTs. From the options presented to the respondents in the questionnaire the influence of the owner (owner's judgement – 55%) once more took precedence over all other options (*cf* Figure 4). However, in this instance *Customer needs* (28%), *trends industry* (25%), and the influence of *tourism industry associations* (25%) were also given fair consideration.



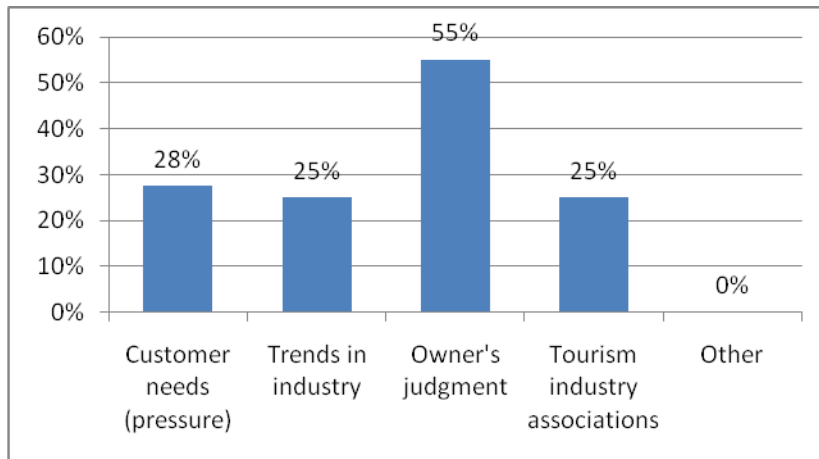


Figure 3: Initiators of ICT investment in SMHEs.

Undeniably the owner/managers exert the greatest influence on decisions taken within SMHEs. The owner/manager's perceptions about technology will therefore directly influence whether the business adopts ICTs or not. Two questions providing insight into the owner/manager's perceptions of ICT related to *Perceived ease of use* and *Perceived usefulness*. The findings are displayed in the figure below:

#### ***Perceived Ease of Use:***

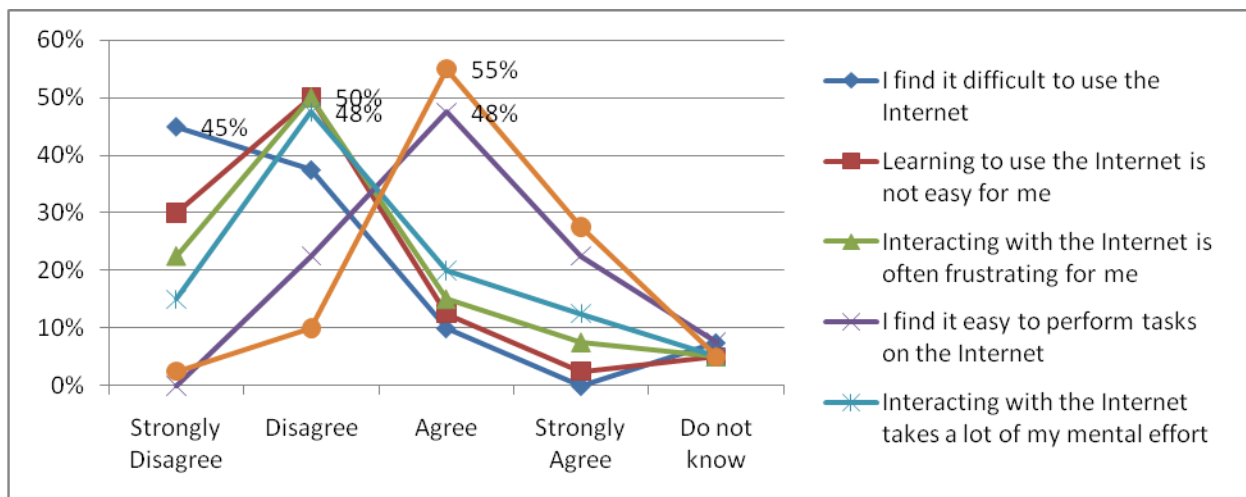


Figure 4: SMHE perceptions on ease of using the Internet

Though some respondents find learning to use the Internet and actually using the Internet difficult, they represent less than 20%. The overall impression is that from the respondents' feedback, nearly 50% find it easy to perform tasks on the Internet and at least 55% think that

overall, the Internet is easy to use. If the decision to invest in IT was based purely on whether the owner/managers found it easy to use the Internet, only 55% of the respondents would invest in Internet technologies.

### *Perceived Usefulness:*

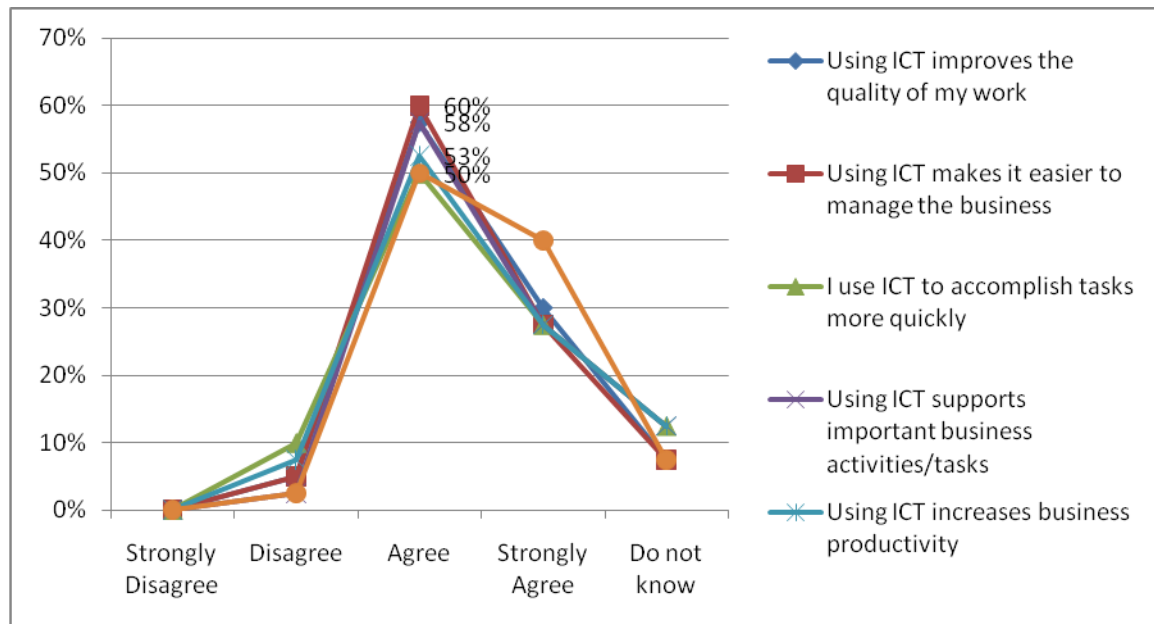


Figure 5: SMHE perceptions on the usefulness of the Internet

An overwhelming trend indicates that a greater number of respondents are of the opinion that ICT generally has a positive impact on business tasks, activities, efficiency, and quality of work. The perceived usefulness of a product (Internet technologies) has a direct bearing on whether it will add value to the business. If the owner/manager is convinced that the product will add value (to any agreeable scale) to the business, then the purchase or investment in the product improves considerably. Overall, 50% of the respondents think that ICT is a useful business tool.

### *Which ICT tools has your business invested in?*

All questionnaire responses indicated that all participating SMHEs have a telephone, either a fixed telephone line or a mobile phone. Besides the telephone, the fax machine (90%), and DSTV satellite television (83%) are the two most popular technological tools. At least 75% of the participating SMHEs had a computer and 68% access to the Internet demonstrating that at its own pace, the SMHE sector has gradually embraced some newer technological tools. However,

the difference that exists between the percentage of SMHEs that have a computer and the percentage of SMHEs that have an Antivirus on those computers (58%) is a symptom of limited ICT information/awareness. The purchasing of an Antivirus system is crucial for any business that wants to protect business information stored on computers. A slightly smaller percentage used computerised Accounting (30%) or Reservation (30%) software systems. Fifteen percent used cellphone banking, and only 3% used other (e.g. Debit or Credit card payment systems) ICT tools.

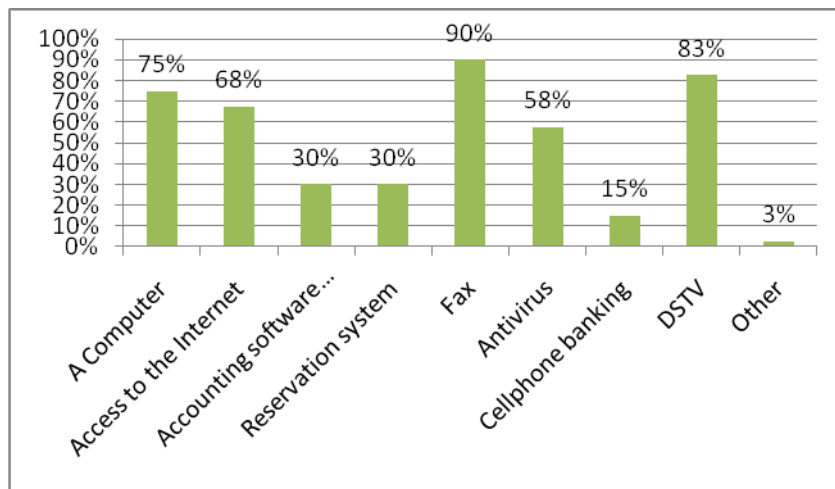


Figure 6: ICT tools used by SMHEs.

#### Which Internet technologies has the business invested in?

The Internet has revolutionised how business is conducted. The responses received from the Technological context of the questionnaire show that a slight difference exists between the number of confirmations that the business has a website and the count of URL's provided. In the general business information section, 60% of the respondents provided the business website address (URL). In the Technological context section the respondents were asked if they had a website and 65% answered yes to the question. The slight difference in these figures is because some respondents are listed on destination portals or third party websites and they view the webpage dedicated to their business on these third party websites as their own website. This is however not accurate; for the purpose of this study the business website must be registered in its own unique domain. The email use percentage decreased slightly (93%); however 95% obtained in the General business background information section is more accurate as actual email addresses provided, were counted.

Other Internet related technologies receive lower rankings than the business website and email; the difference was marginal in the cases of *Internet banking* and the use of *Fax to email* which both measured 58% of the respondents. Internet banking and Fax to email have been adopted by SMHEs at a faster rate than the use of websites for business. The potential to use the Internet for business has been there for as long as the Internet has been around; meanwhile consumer use of the Internet has gradually increased over time. Lower Internet connectivity costs, costs of hardware and faster accessibility of the Internet have spurred on the use of the Internet by individuals. According to Internet World Stats (2009) figures (quoted in Kim *et al.*, 2010), there are currently 1.46 billion Internet users in the world, and this figure shows an increase of 305,5% from the year 2000's statistics. By the year 2009 there were 1.46 billion potential customers for SMHEs but only 65% of these businesses had a website. Considering only the past nine years during which SMHEs could have used the Internet for business, only 65% of them currently have websites. However compared to business websites, Internet banking and Fax to email which have been commonly accepted in the past couple of years, have been well adopted by the SMHE sector.

Those Internet technologies directly related to the promotion of, or enhancement of services offered by a website: *Online bookings* (38%), *Online payments* (28%), *Online database registration* (25%), and *Search engine listing* (23%) are not prioritised by SMHEs.

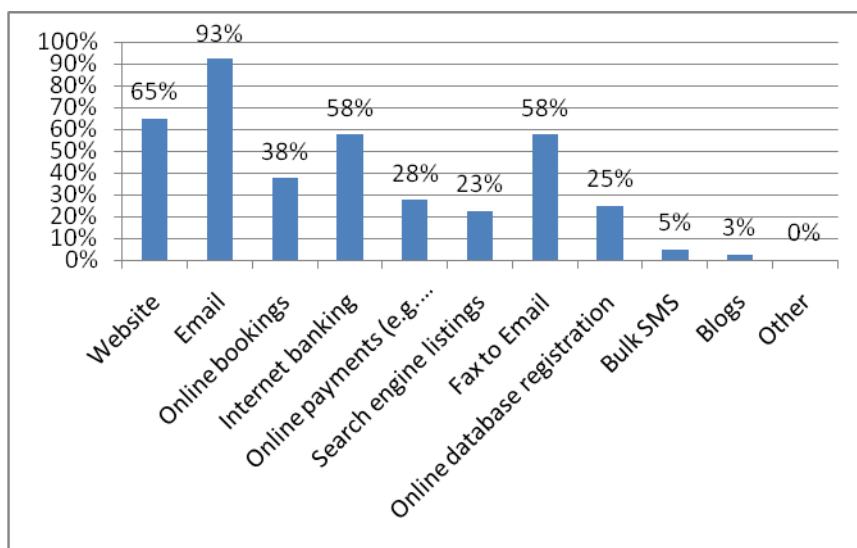


Figure 7: Internet technologies used by SMHEs

## DISCUSSION AND RESULTS

Based on the theoretical framework presented in the literature review and the analysis of findings of the data collection stage of this study, a model for the adoption and implementation of e-commerce in SMHEs is developed in this section. A combination of two existing models found to be the most suitable was used to form the foundation of the proposed model. The proposed model was derived from the Delone and Mclean's IS success model (2004) made up of the following interrelated dimensions of Information Systems success: *Systems quality, Information quality, Service quality, Intention to use, Use, User satisfaction, and Net benefits*, and the ITGI's (2007) Five focus areas (*Strategic alignment, Value delivery, Risk management, Resource management, and Performance measurement*) of the IT governance model. These models were chosen based not only on applicability but they had also been tested, redesigned and discussed by various authors over the years. Delone and McLean's model of IS success was first introduced by them in 1992, while the ITGI's Five focus areas of IT governance model, although relatively new, is based on well established IT governance principles. Successful ICT adoption and implementation has been achieved in some sectors (e.g. banking); adjusting tested existing models to fit the SMHE context will improve the success probabilities of the proposed model. The proposed model focused on including the best components of both models as well as adding additional components specific to the SMHE context.

The following figure depicts the major factors that influence the success of e-commerce initiatives by SMHEs:

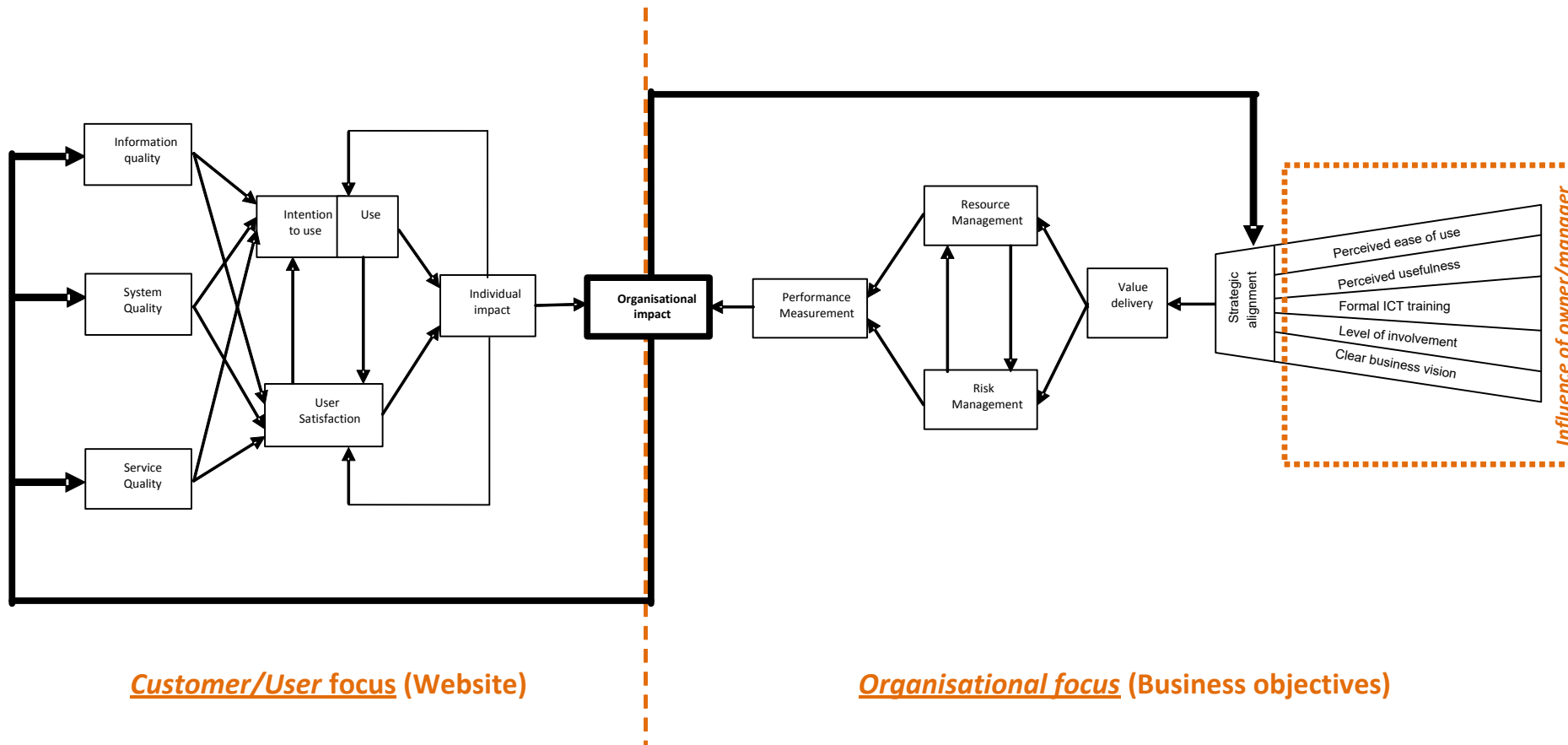


Figure 9: E-commerce success model for SMHES (adapted from the Delone and McLean 2004 model)

The identified components for IT governance and e-commerce success were carefully analysed and applied to the SMHE scenario. This application resulted in the formulation of the model depicted above (Figure 9). The model is made up of two focus areas namely *Customer/User focus* and the *Organisational focus* area. This grouping by focus area depicted the symbiotic relationship between IT strategy and business objectives. **Customer/User focus** summarises the interaction with ICT from a customer's perspective and how these interactions eventually influence the organisation. The **Organisational focus** looks at the suggested way in which SMHEs must plan for ICT investments and how this will impact the organisation.

Organisational impact is the focal point of the model as it should be of any business. Decision and actions taken by the owner/managers will influence the business either negatively or positively. ICT investment decisions are no exception. Alignment between IT strategy and business objectives (strategy) has been recommended in the literature review as a possible solution to ensuring that the desired value is derived from investing in ICT.

By offering accommodation and hospitality services to the customer, SMHEs derive financial benefits when the customer pays for services received. The Customer focus represents the primary objective of the business which is to deliver a service to a customer. ICT presents an alternative way of providing that service to the customer. Success factors guiding the process of using ICTs in business processes, is discussed in the following section.

### **Customer/User focus**

The Customer/User focus of the model identifies aspects that must be addressed by the ICT tools used to offer a service to the customer (e.g. Website). The Delone and McLean (2004) model referred to in this study is an adaptation of their original model created in 1992. The 2004 version of the model saw the combination of two factors namely *Individual impact* and *Organisational impact* into *Net benefits*. However, the findings of this study indicated that in the case of SMHEs the separation and distinction between the benefits to the user and those which accrue to the business, must remain clear. The questionnaire findings strongly indicated that although some SMHE owner/managers paid attention to customer needs prior to investing in ICTs, the greater

majority did not. Therefore it can be assumed that the value derived from ICT usage is largely influenced by other factors in the case of SMHEs. Consequently, the proposed model has been modified to substitute Net Benefits with the original components, *Individual Impact* and *Organisational Impact*. All other changes suggested by Delone and McLean in their arguments for the amendments they affected to the original model, have been accepted for the purposes of this study. These components, which were then adapted for the SMHE context, are discussed below:

### ***Information Quality***

The most popular and acceptable use of a website for SMHEs is to provide information. The information provided on these websites is often minimal and limited to a description of how the business was formed and a marketing pitch that describes items such as the tranquility of the SMHE and its proximity to the sea, shops or the like. In the case of SMHEs, this information remains unchanged for the entire lifespan of the website. Looking at this from a website user's perspective, stagnant information does not encourage the user to visit the website again after the initial visit. Use of Internet technologies such as *hit-counters* help to monitor how often the website is viewed. This gives a good indication of its effectiveness. SMHEs have to ensure that the information is relevant to their potential customers. This information must be *relevant, current, and easy to access*.

### ***Systems Quality***

Various systems exist within an organisation. The Internet represents another type of information system within the SMHE. The website of the organisation is also a system with inputs, processes and outputs. The quality of a website can influence the customer's intention to use the SMHE's services and user satisfaction. Delone and McLean (2004) highlight four quality system attributes namely: *usability, reliability, adaptability, response time*.



### ***Service Quality***

The customer's online experience must be of the same quality as the services received by the customer through alternative forms of interaction with the business (e.g. telephonically, or when the customer makes direct contact by visiting the business at its place of operation). At the core of providing services over the Internet is the issue of support. Lack of support in this area can also result in loss of customers. SMHEs have to ensure that email enquiries or web form enquiries are given the same level of importance as those received, for example telephonically.

All the factors mentioned above namely: *Information Quality*, *Systems Quality*, and *Service Quality* have a direct impact on the user's intention to use, satisfaction and actual use. By improving on these factors, the business automatically increases the chances that the use of the website will result in added value to the business. This value arises as a result of the benefit (Individual benefit) enjoyed by the user from using the website. When the user successfully achieves their desired intentions, this influences Individual benefit. If users find the website useful and use the information or services, this results in future or immediate organisational benefits.

### **Organisational focus**

Organisational aspects need to be factored so as to align Internet technologies with business objectives. The five focus areas (*Strategic alignment*, *Value delivery*, *Risk management*, *Resource management*, *Performance measurement*) of the ITGI's IT governance model included in the proposed model are key organisational aspects included in the proposed model. Alignment of business strategy and IT strategy is crucial to ensuring that value is derived from ICT investments. Using ICT to deliver on customer services cannot be isolated from the organisational focus of the business. The model includes Strategic alignment as an important component that SMHEs must consider.

This study identified the influence of a single person, the owner/manager, as a unique SMHE attribute. Findings from the questionnaire also confirmed that owner/managers themselves

acknowledge that their own perceptions and experiences have a considerable influence on business decisions taken. The model shows five influencers of owner/manager opinion namely: *Perceived ease of use*, *Perceived usefulness*, *Formal ICT training*, *Level of involvement*, and *Clear business vision*. These five influencers were selected as the most popular based on the questionnaire and literature findings. SMHE owner/managers must acknowledge that these influencing factors exist and have a direct impact on the strategic direction of their businesses.

The Organisational focus dimension of the model is summarised in this paragraph. When the ICT invested is aligned to business strategy, technology has to be monitored to ensure that it supports the value delivering processes within the organisation. With new technologies and processes risks increase and additional resources (e.g. processes, people, applications, infrastructure, and information) may need to be acquired. Risk management and Resource management address the planning and management of any potential risks that may arise and the additional resources required. Performance management measures the balance of scales between the effort of investing, and the benefit derived from using technology. This is a very important activity as it is aimed at ascertaining the type of value and quantifying it (where possible) and crediting it to the organisation (*Organisational impact*).

## **CONCLUSIONS AND IMPLICATIONS**

The SMHE is seen as a positive contributor to the economy of developing countries. As a result of the Internet the SMHEs which serve local clients, now have easier access to both local and international clients. However, not all SMHEs enjoy the full benefits provided by Internet technologies. This paper highlights how SMHEs can benefit from using Internet technologies in order to gain a competitive advantage.

This study found that although some SMHEs have business websites, there is very little diversity as far as Internet technologies used on these websites are concerned. This could be attributable to two factors identified in this study, the low level of formal ICT skills of owner/managers and SMHE owner/managers' dependency on the guidance of ICT vendors/intermediaries. It is recommended that SMHE owner/managers identify sources of current ICT information (e.g.

tourism industry publications, tourism industry regulators) to ensure that they are aware of relevant technological developments. Additionally, to reduce the risk of ICT failure once the technologies are implemented, staff must be trained to ensure they are comfortable with using the technology.

Prior to selecting Internet technologies SMHE owner/managers need to clearly identify how the technologies will assist towards meeting the objectives of the business (IT strategy). It is further recommended that SMHEs ensure that ICT investment initiatives are aligned with business objectives. The model proposed in this paper provides a guide for how SMHEs can achieve this. The model introduces the *„Influence of owner/manager’* as a key influencing factor on SMHE strategic alignment. The impact of the influence of the owner/managers in the decision-making process of the SMHEs is a unique attribute that is common amongst SMHEs as highlighted in the findings of this study. SMHE owner/managers acknowledge (as per questionnaire findings) their dominant role in all aspects of the SMHE. It can therefore be concluded that the adoption of Internet technologies within SMHEs is proportional to the owner/manager’s ICT awareness and understanding.

The aim of this study was to develop a model that would guide SMHEs when aligning Internet technologies with business strategy in order to gain a competitive advantage. Data from 40 SMHEs, literature, and observations were collected and analysed and a model was created based on the analysis findings. Whilst the strength of the e-commerce success model for SMHEs lies in its ability to encourage alignment between ICT and business objectives, in the case of SMHEs this alignment is considerably influenced by the owner/manager.

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# **THE EFFECT OF ENTREPRENEURSHIP EDUCATION: INSIGHT FROM TWO UNIVERSITIES IN BOTSWANA**

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**Keywords** Entrepreneurship, Entrepreneurship Education, Teaching Methods, Botswana

# **THE EFFECT OF ENTREPRENEURSHIP EDUCATION: INSIGHT FROM TWO UNIVERSITIES IN BOTSWANA**

## **Abstract**

**Purpose** - A growing body of academic research has examined the effectiveness of entrepreneurship education with the aim of raising students' awareness of self-employment as a career option and creating an enterprising culture amongst them. The move towards self-employment is, and will continue to become, an increasingly important element of economic growth and development. This paper aims to explore and investigate entrepreneurship education at Botswana's two universities to determine and evaluate its effectiveness.

**Design/methodology/approach** – In the process of selecting the research population, 400 students were identified within two universities. Simple random sampling was used to select the respondents and self-administered questionnaire was used as data collection with closed-ended questions posed to respondents.

**Findings** – The results indicate that entrepreneurship education is not appropriately developed in Botswana to effectively equip students with entrepreneurial skills and competencies that will help them to choose entrepreneurship as a career option.

**Practical implications** – The paper provides a comprehensive analysis of the state of entrepreneurship education in Botswana to create a platform for further research in the area of entrepreneurship education, particularly at higher education level. The findings provide useful information on effective teaching methods in the area of entrepreneurship.

**Paper type:** Research paper

## **INTRODUCTION**

Entrepreneurship education concept has become an important economic and social phenomenon as well as a popular research subject. It has also become an academic and teaching field (Fayolle and Gailly, 2008:569), considering the fast-increasing number of universities worldwide, which offer entrepreneurship programs and courses. The main reason for this concern is the growing need for entrepreneurs who accelerate economic development through generating new ideas and converting them into profitable ventures (Tucker and Selcuk, 2009:142).

Four decades ago, since the first class of 1945 by the Harvard Business School, scholars have been interested in the explosive growth of entrepreneurship education (Kirby, 2004: 510). A number of good studies have traced developments and the state of entrepreneurship education (Kuratko, 2003; Garavan and O'Connell, 1994) and all have unearthed a remarkable progress made in this field. Entrepreneurship is a new and growing field and as a result, considerable academic efforts have been focused upon entrepreneurship education in recent years helping the field to develop and gain momentum (Fayolle, Gailly, and Lassarc-Clerc, 2006; Gurol and Atsan, 2006:25).

Much emphasis is being directed towards entrepreneurship education (Nabi and Holden, 2008: 545). Furthermore, entrepreneurship has been an important research field among economists and scholars alike worldwide for considerable time (Fayolle, Gailly, and Lassarc-Clerc, 2006; Gurol and Atsan, 2006: 25). The positive relationship between education and business creation had been acknowledged by international literature from different perspectives and approaches (Niyonkuru, 2005:6) and according to scholars and researchers; there is a possibility to increase ability through education.

It is also widely accepted that entrepreneurship can be learnt and that higher education levels are associated with significantly high levels of entrepreneurial activity (Niyonkuru, 2005: GEM Report, 2006). Despite that, entrepreneurial skills are teachable but schools are not teaching them. They are teaching how to work for entrepreneurs, not how to be entrepreneurs (Alberti, Sciascia & Poli, 2005:458). Moreover, the trend in many universities in the USA, Europe, East Asia, and

Latin America is to develop or expand entrepreneurship programmes and design unique and challenging curricula for entrepreneurship education (Kuratko, 2003:10). The purpose of this paper is to determine the effect of entrepreneurship education programmes in enhancing students' self confidence about their ability to start a business. The paper aims to explore and investigate entrepreneurship education at Botswana's two universities to determine and evaluate its effectiveness.

### **Entrepreneurship education in universities**

Entrepreneurship education is critical for developing entrepreneurial skills, attitudes and behaviours that are the basis for economic growth. Entrepreneurship education in universities can represent a positive influence in terms of general attitudes to entrepreneurship, and in turn promote entrepreneurship as a useful and respectable career prospect for graduates (Galloway and Brown, 2002:399). It should be understood what the general characteristics of entrepreneurship education in universities are? A study of fifteen leading US entrepreneurship education programs found that the primary goal for the majority of the programs was to increase the awareness and understanding of entrepreneurship as a process (Hamidi, Wennberg & Berglund, 2008:306). The second major goal was to increase students' awareness of entrepreneurship as a career possibility.

Universities, especially technical universities, can be seen as engines of scientific invention and technological invention. Invention and technological development can be transformed into innovation. (Volkman, Wilson, Mariotti, Rabuzi, Vyakarnam & Sepulveda, 2009:44). Universities play a key role in promoting the talents of students, graduates and researchers. A university can be conceptualised as a societal innovation system, and that entrepreneurship education, when embedded in such a system, could be regarded, not only as a task of producing entrepreneurially oriented competent individuals, but also reproducing the social mechanisms that underpin and facilitate the birth and growth of businesses and firms (Petridou, Sarri & Kyrgidou, 2009:29). In addition, universities play a key role as entrepreneurial hubs, connecting researchers, students, entrepreneurs, business enterprises and other stakeholders. Nevertheless, access and exposure to entrepreneurship within educational systems at all levels are important as they are the

outreach to target audiences outside of traditional educational systems (Volkman, Wilson, Mariotti, Rabuzi, Vyakarnam & Sepulveda, 2009:9).

In order to get a clear understanding of the term entrepreneurship education as used in this research, it is vital to provide a pertinent and permissible definition of entrepreneurship and entrepreneurship education.

### **Entrepreneurship**

Timmons (1999:27) refers to entrepreneurship as a way of thinking, reasoning and acting that is opportunity obsessed, holistic in approach, and leadership balanced. Timmons (1999) further asserts that entrepreneurship results in the creation, enhancement, realisation, and renewal of value, not just for owners, but for all participants and stakeholders. At the heart of this process is the creation and/or recognition of opportunities followed by the will and initiative to seize those opportunities.

For the purpose of this study, the definition of Shane and Venkataram (2000:218) is used. Shane and Venkataram (2000) define entrepreneurship as a process through which opportunities to create future goods and services are discovered, evaluated, and exploited. Shane and Venkataram (2000) argue that the field of entrepreneurship involves the study of sources of opportunities, the process of discovery, evaluation, and exploitation of opportunities. In this content, the entrepreneur is defined as the individual who discovers, evaluates, and exploits opportunities.

Although the phenomenon of entrepreneurship provides questions for many different scholarly fields, organisation scholars are fundamentally concerned with three sets of research questions about entrepreneurship: (1) why, when, and how opportunities for the creation of goods and services come into existence; (2) why, when, and how some people and not others discover and exploit these opportunities; and (3) why, when, and how different modes of action are used to exploit entrepreneurial opportunities (Shane and Venkataram, 2000:218).

It is apparent from the discussion and definitions of entrepreneurship above that the following are important determinants of entrepreneurship.

- Recognition of an opportunity
- Willingness to seize the opportunity
- Evaluation of the opportunity
- Exploitation of the opportunity

The GEM report of (2006) findings showed a strong relationship between the level of education of an individual and the tendency to pursue entrepreneurial activities, and on the other hand a strong positive relationship that exists between the level of education of the entrepreneur and level of business success. The GEM (2008:32) South Africa also maintains that several studies have demonstrated links between the provision of entrepreneurship education and levels of entrepreneurial activity. Entrepreneurship education and training was a topical issue for the 2008 GEM survey.

### **Entrepreneurship education**

As the researcher delve more into the literature on entrepreneurship education, it would be helpful to define and understand what is meant by entrepreneurship education. Sherpherd & Douglas (1997) as cited by Solomon (2007) propose this definition: the essence of entrepreneurship is the ability to envision and chart a course for a new business venture by combining information from the functional disciplines and from the external environment in the context of the extraordinary uncertainty and ambiguity which faces a new business venture. It manifests itself in creative strategies, innovative tactics, uncanny perception of trends and market move changes, courageous leadership when the way forward is not obvious and so on. What we teach in our entrepreneurship classes should serve to instill and enhance these abilities.

A study of Entrepreneurship Education in Botswana and the Significance of Institutional Preparation was conducted by Swartland in 2008 and the focus was on Post-Primary Education and Technical and Vocational Education and Training (TVET). Another study commissioned by the World Bank, identifies and investigates the provision of Integrated Entrepreneurship Education (IEE) in Botswana, Kenya and Uganda. IEE covers the teaching of knowledge and skills that will enable the individual student to plan, start and run his/her business, delivered as an

integrated part of the curriculum at an acknowledged education and training institution within the national educational system. The study is limited to Entrepreneurship Education (EE) provided to regular, full-time students in General Secondary Education (GSE) and Technical and Vocational Education and Training (TVET) at secondary and post-secondary levels. The study is a review where available documents are supposed to be the prime source of information.

Both studies focus point is on post-secondary and TVET institutions, the researcher focus is on the university level. It appears though, as if little research on entrepreneurship education has been conducted in universities in Botswana and the body of specialist knowledge on entrepreneurship education regards universities as the key role players in shaping attitudes, supplying knowledge, and generally enabling our students as enterprising customers and endowing them as entrepreneurial products (Anderson & Jack, 2008:259). In this note, the researcher focus of this study is limited to two universities in Botswana to benchmark with the recommended international body of specialist knowledge. Thus to capture, use and develop the innate abilities of the students, those who should represent the future as the most intelligent stratum of our society, is a major academic challenge (Anderson & Jack, 2008). Currently, universities are expected to play a new role in society, in addition to research and teaching, by applying a „third mission“ of economic development. This development has been apparent at many US universities for decades, and is currently accelerating also in Europe (Rasmussen & Sorheim, 2006:185).

A shift in attitudes among students can be fostered by introducing and promoting the dynamic, innovative and ambitious face of entrepreneurship (European Commission, 2008:12). The primary purpose of entrepreneurship education in higher education institutions should be to develop entrepreneurial capacities and mindsets (European Commission, 2008:23). A perceived lack of relevant experience and lack of self-confidence are two often cited reasons for new graduates not engaging in entrepreneurship soon after graduation. The university experience should be capable of addressing both these needs.

The learning experience needs to build depth and breadth in awareness, understanding and capacity. Although not applicable in all cases, the general approach would be to provide exposure and positive and motivational experiences during the early stages of university life. This then

provides a platform from which to build depth and capability in preparation for an entrepreneurial career at the point of exit. The important point here is one of progression, not only through university, but also through the whole education system at all levels (European Commission, 2008:23).

HEIs can help create a more entrepreneurial disposition among young people by instilling a clear understanding of risks and rewards, teaching opportunity seeking and recognition skills as well as creation and destruction of enterprises. They can also play a role in developing entrepreneurial traits in students (Jesselyn Co & Mitchell, 2006:349). With the recent increase of university graduates and self employment and business ownership being perceived as growing employment opportunities, it has been recognised and acknowledged that higher education needs to be better equipping its graduate“s for the diverse range of skills required to manage this type of work (Carey & Naudin, 2006:522).

### **Relevance of entrepreneurship education**

The 1980s and 1990s have seen an unprecedented growth in the demand for enterprise education which also has been matched by a corresponding growth in the number of courses offered by both academic institutions and by enterprise agencies of one sort or another (Jack and Anderson 1999). Jack and Anderson (1999) further argue that this development is a consequence of a variety of interrelated changes in the national and international economy. The identified three sources of demand: Governmental; Students; and education and Business world (Niyonkuru, 2005).

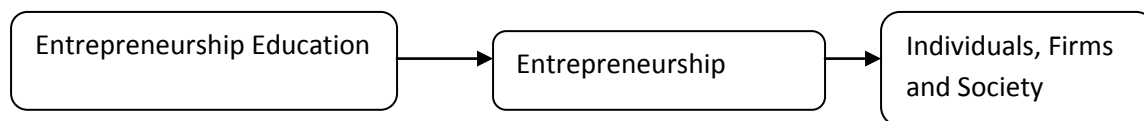
- The first source of demand we have identified is governmental. This primarily economic and driven by the shift towards a post-Fordist economy, aim at developing an entrepreneurial culture oriented to job creation (Jack & Anderson, 1999; Niyonkuru, 2005). It is documented that most of the new jobs arise from entrepreneurial small firms;
- The second source of demand for entrepreneurship education is that of the students. Jack and Anderson (1999) suggested that there are two sets of reasons why students may want to study entrepreneurship. First, the student may plan to start up their own business; second they may wish to acquire knowledge which will be helpful in their careers in



larger organisations. Some researchers even proposed that some students may be attracted to enterprise learning as an insurance against economic downturn;

- The third source of demand for entrepreneurial education is business itself. Alberti, *et al.* (2004) point out that, on one hand, there seems to be a general shortage of managerial skills in (Small and Micro Enterprises) SMEs and on the other hand, within larger companies there is a need for managers who are oriented to the development of new business initiatives to ensure a continuous renewal. The figure below indicates the relevance of entrepreneurship education.

**Figure 1 :The relevance of entrepreneurship education**



Source: (Alberti, Sciascia & Poli, 2004: 3)

All the introductory reflections can be summarised as shown in figure 1. Entrepreneurship education fosters entrepreneurship, which in turn results in positive outcomes on individuals, firms and society. Moving on from these assumptions on the relevance and the possibility of teaching entrepreneurship, the debate on entrepreneurship education focuses on several issues: and this research project will join the debate. It will provide an overview of the growing phenomenon of entrepreneurship education and specific emphasis will be placed on the current status of research in entrepreneurship education. Particularly, key issues in entrepreneurship education will be discussed: the variety of audiences and objectives, the contents of entrepreneurship courses, the methods to be adopted and the importance of its assessment (Alberti, Sciascia & Poli, 2004).

Economic growth in all industrialised and developing countries is a key issue and particular interest is being focused on the role of entrepreneurship and small business (Garavan & O’Cinnede, 1994). Garavan and O’Cinnede (1994) further advance the explanation that economic recession, high unemployment rates and fluctuations in international trade cycles have contributed to the revival of interest in entrepreneurship as a possible solution to rising unemployment rates and as a recipe for economic prosperity.

## **Entrepreneurship education in Africa**

Research in entrepreneurship education in developing countries and Africa is scarce and non-existent. Niyonkuru (2005) is of the view that there are only few research and studies on entrepreneurship education conducted outside the USA. This is an indication of the delay with which entrepreneurship has developed outside the USA. Niyonkuru (2005) further asserts that, in the context of African countries, entrepreneurship research is relatively lacking and this makes it difficult to report the progress of entrepreneurship education in these countries.

Niyonkuru (2005) conducted a study in entrepreneurship education at higher institutions of learning in Rwanda. In the context of his study, it was clear that entrepreneurship education at higher institutions of learning in Rwanda is not appropriately developed to prepare students for entrepreneurship as a career option.

## **ISSUES IN ENTREPRENEURSHIP EDUCATION CURRICULUM**

Despite the fact that the debate surrounding whether or not entrepreneurship can be taught continues, there has been much interest in entrepreneurship education over the last couple of decades (Henry, Hill and Leitch, 2005). Conceptual and contextual convergence is of paramount importance to the ongoing debate of whether entrepreneurs are born or made and to issues surrounding entrepreneurship education and its impact upon entrepreneurial activities (Martlay, 2006). Curriculum for entrepreneurship education is being developed, refined, and debated (Niyonkuru, 2005). The rationale for developing and refining the curriculum is based on empirical evidence that not only the curricula have concentrated on preparing the students towards the “take-a-job” option instead of “make-a-job” option and therefore an urgent need for young people to be trained and educated in the field of entrepreneurship. This will hopefully encourage them to become job-creators instead of job-seekers once they leave the educational system (Jesselyn Co and Mitchell, 2006).

Notwithstanding inherent research flaws and generalisation problems, the continuous expansion in entrepreneurship education has contributed to the emergence of a relevant curriculum, together with a range of related delivery platforms and assessment methods (Matlay and Carey, 2007).

Matlay and Carey (2007) further that considerable variations in course design, content and assessment, however, ignited acrimonious debates amongst various stakeholders, mainly in relation to course appropriateness and cost effectiveness.

The challenge to educators will be to craft courses, programs and major fields of study that meet rigors of academia while keeping a reality-based focus and entrepreneurial climate in the learning experience environment (Solomon, 2007). Solomon (2007) further asserts that, entrepreneurship is an ongoing process that requires a myriad talents, skills and knowledge leading to unique pedagogies capable of stimulating and imparting knowledge simultaneously. Fayolle and Gailly (2008) are of the view that, however, there is nothing further from the truth and numerous ontological, theoretical, pedagogical, and practical challenges remain. Among others, two recent articles (Katz, 2003) published in leading journals in the field propose, each in their own way, a comprehensive literature review of the subject aimed at defining the characteristics of this development as well as its main limitations and key challenges. At the ontological and theoretical levels, there is no consensus regarding what entrepreneurship is.

### **Key issues and challenges in entrepreneurship education**

According to Garavan and O’Cinneide (1994), the big challenge for researchers and educators in relation to entrepreneurship education is the appropriateness of curricula and training programmes. Jack and Anderson (1999) add that there is a need to teach students theory to support their practical learning experience. Researchers and educators need to provide a conceptual background which allows students to understand and to engage with the real business world. Fiet (1998) as in Jack and Anderson (1999), proposed that if they are to improve the substance of what they teach to students studying entrepreneurship, they need to:

- pursue theory-driven research agendas and be actively seen to do so; and
- expose students to theoretical explanations of why some entrepreneurs succeed and others fail.

Much more of our research should be theory-driven rather than descriptive and it should integrate research findings and theory in a way that can be understood and applied by students. From a researcher’s perspective, Alberti *et al.* (2004) identify five main issues in debating how to

develop entrepreneurship through education, namely the variety of audience and objectives, the contents of entrepreneurship courses, pedagogies and assessment methods. However, they mention that the debate around audiences and objectives seems to be closed due to the apparent consensus among scholars, whereas the debate around pedagogies and contents is still open.

All five issues in entrepreneurship education are related to one another. According to Niyonkuru (2005) educational goals depend on the learning audience; assessment can be done only if goals are fixed; and depending on audience; pedagogies can be chosen depending on contents and audiences; assessment depends on both contents and pedagogies. According to this view, assessment appears as the most relevant dimension in entrepreneurship education, since it is the issue with the highest number of incoming relationships and this means that is the issue that is extremely influenced by all the others (Alberti, Sciascia & Poli, 2005) and hence requires a lot of research.

According to Alberti *et al.* (2004), for effective entrepreneurship education there should be a relationship between the goals of entrepreneurship programme, the audiences to which the programme is delivered, the contents of the entrepreneurship courses or modules, the method of delivery or pedagogy and finally the assessment that will be used. Niyonkuru (2005) conclude that the five core research issues in entrepreneurship education and their relationship have important implications for the development of an effective learning process.

Given the nature and framework of this paper, it is worth noting that the study borrows from the five core research issues in entrepreneurship education mentioned above and only issues related to goals/objectives, contents of entrepreneurship courses, teaching and assessment methods are considered.

### **Contents of entrepreneurship courses**

Despite continuing argument that entrepreneurship cannot be taught and entrepreneurship can be taught, many global institutions are teaching entrepreneurship courses and programs (Solomon, 2007). Solomon (2007) further poised that across the US two and four year colleges and universities present a number of courses aimed at providing entrepreneurial skills and

encouraging entrepreneurial behaviour. Researchers have discussed about the nature and the importance of entrepreneurship education programmes (EEP) contents (Fayolle, Gailly and Lassas-Clerc, 2006). Parallel to the evolution of the field of entrepreneurship it is worth noting that there is an increasing interest in the development of educational programs to encourage and foster entrepreneurship (Alberti, Sciascia and Poli, 2005).

The discovery and exploitation of entrepreneurial opportunities rely upon the individual's knowledge stock (Alberti, Sciascia & Poli 2005). According to Brown (2000), entrepreneurship education should be viewed in terms of the skills that can be taught and characteristics that can be engendered in students in order to help them develop new and innovative plans. In this respect Brown mentions that the curriculum has to focus on the features to conceive and start of the business. Hills (1998) as in Henry, Hill and Leitch (2005) , for example, in his survey of 15 leading entrepreneurship educators in the USA, identified that there were two important objectives of entrepreneurship education programmes. These were to increase the awareness and understanding of the process involved in initiating and managing a new business, as well as to increase students' awareness of small business ownership as a serious career option (Henry, Hill and Leitch, 2005).

Alberti, Sciascia & Poli (2005) cite four kinds of knowledge useful to entrepreneurs:

- business general knowledge: it applies to business in general, both new and established firms.
- Venture general knowledge: it is distinct from business general knowledge but fairly general to ventures.
- opportunity specific knowledge: it is the knowledge about the existence of the un-served market and/or about the resources needed for venturing in it;
- venture specific knowledge: it is the knowledge on how to produce a particular product or service.

The last two are generally the most important ones for entrepreneurial success, but business schools normally offer courses that foster the first two categories of knowledge.

According to Garavan and O’Cinneide (1994), based on their European-wide evaluation of six enterprise programmes across five European countries, the most commonly cited aims of entrepreneurship programmes include: to identify and stimulate entrepreneurial drive, talent and skills; to undo the risk-averse bias of many analytical techniques; to develop empathy and support for all unique aspects of entrepreneurship, and to devise attitudes towards change. In terms of content, the focus of the programmes reviewed by them varied from idea generation and business planning to the identification of products, market research and business formation. Garavan and O’Cinneide (1994) concluded that entrepreneurship itself is not usually what is taught; rather, it is small business management skills that are provided.

### **Teaching approaches and methods of entrepreneurship education**

It is apparent from the literature that the learning methods employed in entrepreneurship education and training programmes vary considerably from lectures, presentations and hand-outs to video and case study-based learning, with group discussion and role-plays (Henry, Hill and Leitch, 2006). The study of what should be taught (learning content) and how should it be taught (pedagogies) has dominated interest in many researchers.

Very little is still known about effective teaching techniques for entrepreneurship educators (Alberti, Sciascia and Poli, 2005) and research and knowledge about how to teach entrepreneurship remains relative underdeveloped despite the growing demand for more entrepreneurial-oriented graduates (Kirby, 2002). Teaching approaches and methods may involve learning by doing, immersion in real-life situations, case studies and talks by entrepreneurs, or more didactical and conventional procedures whose efficiency could be assessed (Fayolle, Gailly and Lassas-Clerc, 2006). For example, what impacts on attitudes, perceptions and intention would have the development by students of business plan based on their own ideas and/or projects? What about working on a case study or attending a traditional classroom lecture?

In an attempt to assess alternative approaches to teaching entrepreneurship Henry, Hill and Leitch (2006) compared the case method of teaching with the project method, by conducting a survey amongst current MBA students and alumni at the University of Calgary. Henry, Hill and Leitch

(2006) discovered that the students felt the case method was effective in developing analytical skills and the ability to synthesize information. However, courses based on the project method were perceived to develop and enhance knowledge and understanding of the subject area, as well as the ability to evaluate, and were felt to be more effective in teaching entrepreneurship. On the same vein Garavan and O'Connell (1994) argue that the most appropriate learning process and pedagogies for transferring entrepreneurial skills and knowledge. Garavan and O'Connell (1994) are of the view that an entrepreneur, like any other learner needs to employ different learning styles – concrete experience, reflective observation, abstract conceptualization, and active experimentation

### **Assessment of entrepreneurship education**

Research on pedagogy in enterprise education appears to focus mainly on programme design and implementation than on the efficacy of assessment practice (Pittaway, Hannon, Gibb & Thompson, 2009: 72). When exploring the National Council for Graduate Entrepreneurship's (NCGE) research bibliography, a similar conclusion can be drawn. Pittaway, Hannon, Gibb and Thompson (2009) further say despite a database of over 700 citations, including recent working papers, there are only three papers listed that have a specific interest in assessment practice. While the limitations of systematic literature review (SLR) and the NCGE's bibliographical database it does seem that there is a scarcity of work specifically addressing assessment practice in enterprise education published in entrepreneurship journals (Pittaway, Hannon, Gibb & Thompson, 2009: 72).

Assessment is a central element in the overall quality of teaching and learning in higher education. Well designed assessments sets clear expectations, establishes a reasonable workload and provides opportunities for students to self-monitor, rehearse, practice and receive feedback. Assessment is an integral component of a coherent educational experience (Pittaway, Hannon, Gibb and Thompson, 2009:72). It has been observed that impact assessment in entrepreneurship education is currently receiving increasing attention from various stakeholders (Mwasalwiba, 2010:33).

Still little attention has been dedicated to how to measure the overall effectiveness of entrepreneurship education programs towards individuals and society (Alberti, Sciascia and Poli, 2005). Niyonkuru (2005) claims that there are no standardised methods for assessing the results of entrepreneurship education programs towards individuals and society. It is highly advocated that the main problems related to the assessment of entrepreneurship education may lie in measuring output from the entrepreneurial education process.

Alberti, Sciascia and Poli (2005) assert that, the lack of generally accepted measures is due to the heterogeneity of a number of factors characterising entrepreneurship education, such as: target groups; University/schools vs. entrepreneurship education/training focus; objectives of entrepreneurship education; levels of analysis; and time dimension.

Based on the articulated background, the study aims to investigate how well the two universities in Botswana are preparing students taking entrepreneurship courses for entrepreneurial career option. To address this concern, this study tries to determine whether entrepreneurship is appropriately designed to prepare students for job-creation and promote enterprise culture amongst learners. The University of Botswana (UB) and Limkokwing University were selected for this research.

## **RESEARCH METHODOLOGY**

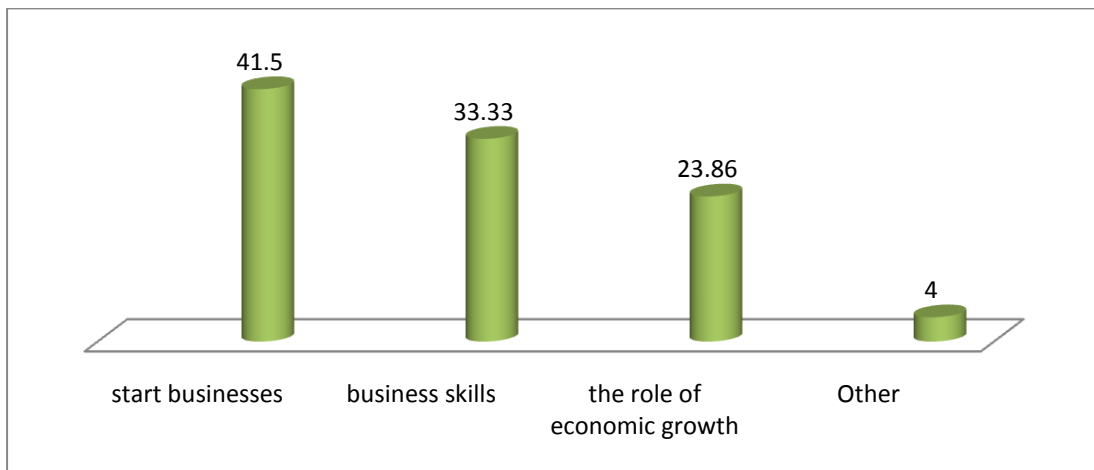
The research followed a quantitative approach. In the process of selecting the research population of about 1000 respondents, 400 students were identified within two universities. The sample targeted at each university was 200 students but due to fewer students reported at Limkokwing University only 112 students were identified and 213 students were from UB. Due to fewer students reported at Linkokwing, each and every student was sampled. Simple random sampling was used to select the respondents at UB. To further achieve the objectives of this study, a self-administered questionnaire was used as a data collection tool and closed-ended questions were posed to the respondents. By administering the questionnaires, a high rate of return of questionnaires was ensured which made a response rate of 81.25%. Data was analysed at inferential and descriptive statistics level using the Statistical Package of Social Services (SPSS).



## DISCUSSION OF THE FINDINGS

Of the 325 respondents selected from the two universities, a total of 60.25% of the respondents are on degree level, 36.59% are on a diploma level and only 3.15% of respondents are on a certificate level (academic level). A higher number of respondents (60.25%) are in their final year of studies which makes them more relevant to the study because they will enter the job market soon. Out of 325 respondents, 65.54% (N=213) attended the University of Botswana and 34.46% (N=112) Limkokwing University. The University of Botswana has a high student enrollment compared to Limkokwing University and this is because it is the only traditional university in Botswana. In terms of size, the two universities are not the same; the University of Botswana is the biggest and has a high student enrollment.

Respondents or students were asked to identify what they thought was the primary aim of entrepreneurship courses offered to them. They were provided with four options that they had to choose from. The options were: (1)to prepare students on how to start businesses (2)to teach general business skills (3)to teach students about the role of entrepreneurship in economic development and job creation and (4) Other

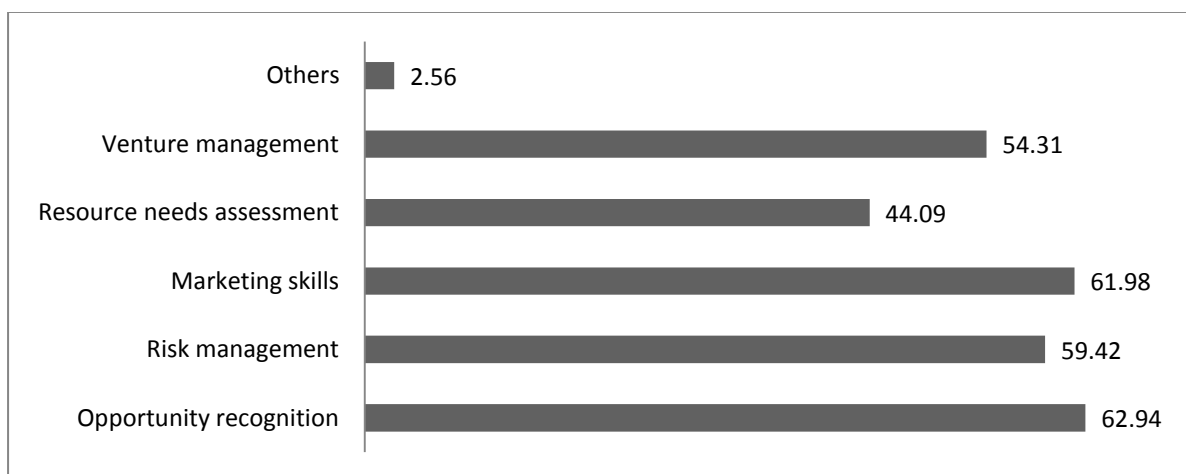


The results indicate that 41.50% of the respondents thought that the primary aim was to prepare students on how to start a new business, followed by 33.33% of the respondents who believed that the primary aim was to teach students about general business skills, 23.86% of the respondents believed that entrepreneurship courses were geared to teach students about the role

of entrepreneurship in economic development and job creation and a minority (4%) of respondents did not agree with the options provided and chose “other”.

From the findings of entrepreneurship courses at the two universities in Botswana, there is a clear indication that the main aim of entrepreneurship courses as viewed by the majority of respondents (41.50%) is to prepare students on how to start a business, then to teach students about general business skills, followed by teaching students about the role of entrepreneurship in economic development and job creation. Based on these findings, it is clear that students taking entrepreneurship courses are only sensitised to starting their own businesses but they are not given the opportunity to practically experience entrepreneurship. This in turn will result in few students taking entrepreneurship as a career option after completion of their studies due to lack of entrepreneurial activities.

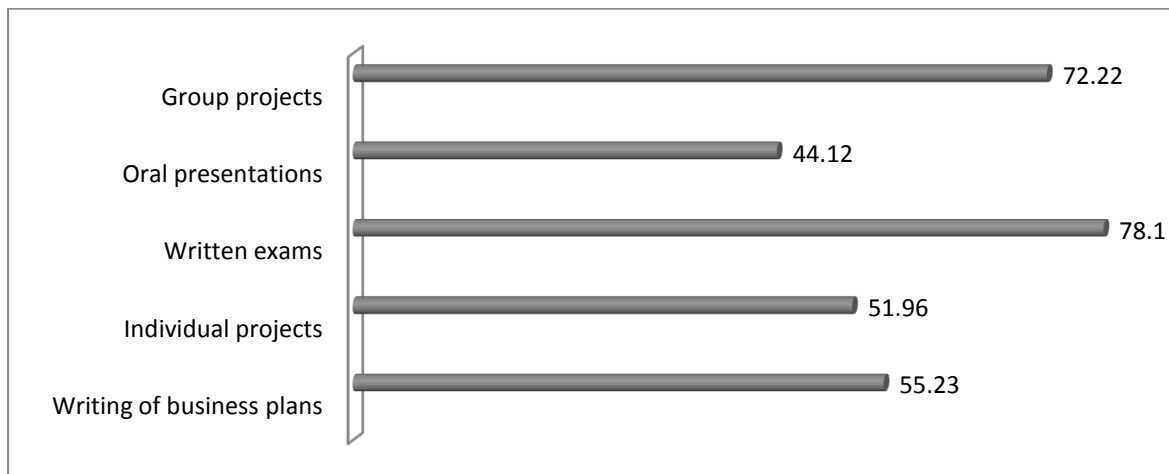
Students were asked to choose teaching/learning content that they thought applied to the course. Respondents were presented with a list of six categories of teaching/learning content to choose from. Figure below shows that 62.94% of entrepreneurship courses that are taught at the two universities in Botswana focus on venture management, followed by 61.98% of courses that have marketing skills in their content, 59.92% of the courses include risk management, 54,31% of the courses include venture management, 44,09% of the courses include resource management and 2.56% of the courses include other content.



It is evident from figure above that the majority (62.94%) of entrepreneurship courses in the two universities in Botswana emphasise opportunity recognition and theoretical knowledge about

entrepreneurship. According to Alberti *et al.* (2004), most business schools normally offer courses in entrepreneurship that foster business general knowledge (ie knowledge that applies to business in general, both new and established firms) and venture specific knowledge (ie knowledge that is fairly general to ventures). The findings in the context of this study reveal that 61.98% of courses include marketing topics, 59.42% include risk management and 54.31% of courses include venture management topics.

Respondents were asked to identify the assessment methods in entrepreneurship education that were used at their university. The following figure shows the responses of the respondents.



The commonly used methods used in entrepreneurship courses in the two universities in Botswana are written exams (78.1%) and group projects (72.22%). The third most commonly used assessment method is the writing of business plans (55.23%). In the context of this study it can be argued that traditional assessment methods still prevail in the two universities in Botswana as they predominantly use written exams and group projects for assessment.

A chi-squared test was conducted to test the association between variables and the results indicate an insignificant association/relationship between the institutions and the perceived effect of entrepreneurship programmes on improving students' entrepreneurial attitudes and intentions, at the 5% level of significance, with a p-value > 0.05. This can be explained by the different environments that students operate in and the difference in the syllabus. These students are from two different institutions with a different programme focus altogether. Another test was conducted and the results show an insignificant association between the institutions and the perceived focus of entrepreneurship programmes in terms of programme content, at a 5% level of

significance, with a p-value  $> 0.05$ . This may be due to the above-mentioned reasons, such as the universities being different, different programme focus and syllabus.

It appears that entrepreneurship education at the two universities in Botswana is not appropriately developed to effectively equip students with the relevant entrepreneurial skills and competencies that will help them to choose entrepreneurship as a career option. With regard to the borrowed entrepreneurship education issues such as course aims and objectives, teaching/learning content and methods and assessments methods, it is apparent that the curriculum at the two universities in Botswana is primarily based on the theoretical transfer of knowledge rather than on experiential learning, and that the more traditional but less innovative assessments methods are the norm in Botswana. Students at the two universities in Botswana are not effectively equipped with the relevant skills and knowledge to experience real activities involved in entrepreneurship and are given little or no practical training for becoming successful entrepreneurs. Although entrepreneurship students have an advantage over other graduates when it comes to understanding entrepreneurial ventures, more efforts should be directed at creating an entrepreneurial culture, orientation and skills, and incorporating entrepreneurship in all educational, development and investment strategies and policies.

## **CONCLUSION**

The results from this study indicate that the provision of entrepreneurship education at the two universities in Botswana does not conform to what the literature recommends as best practice in entrepreneurship education. The researchers established that there is little influence from the two universities in Botswana on students to develop an entrepreneurial mindset and create an enterprise culture among learners. Students have little opportunity to practically experience entrepreneurship because the programmes focus more on the theoretical transfer of entrepreneurship knowledge than on the practical aspects.

## RECOMMENDATIONS

Based on these findings, it is strongly recommended that: (1) a more refined and developed face of entrepreneurship should be developed at the two universities; (2) entrepreneurship should be introduced as a discipline that lead to an academic qualification; (3) teaching/learning methods should give more adjustment to practical approach to entrepreneurship; (4) the quality of entrepreneurship should be improved; (5) government should consider the formulation of the existing policy and review it and (6) less traditional assessments methods should be adopted at the two universities in Botswana.

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**THE IMPACT OF FIRM AND ENTREPRENEURIAL  
CHARACTERISTICS ON ACCESS TO DEBT FINANCE BY SMEs IN  
KING WILLIAMS' TOWN, SOUTH AFRICA**

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# **THE IMPACT OF FIRM AND ENTREPRENEURIAL CHARACTERISTICS ON ACCESS TO DEBT FINANCE BY SMEs IN KING WILLIAMS' TOWN, SOUTH AFRICA**

## **Abstract**

SMEs contribute positively to economic growth, employment and poverty alleviation in South Africa. However, the failure rate of SMEs is very high in South Africa. One of the factors limiting the survival and growth of SMEs in South Africa is non-availability of debt financing. This study investigates the impact of the firm and entrepreneurial characteristics on access to debt finance by SMEs in South Africa. Data was collected through self-administered questionnaire in a survey. The statistical analyses included descriptive statistics, Pearson correlation and logistic regression. The results indicate that firm and entrepreneurial characteristics impact on access to debt finance by SMEs. The study recommends that SMEs owners/managers should be investment ready by providing collateral, attend seminars and training programs to improve on their managerial competence.

**Keywords: Firm characteristics, entrepreneurial characteristics, debt finance, SMEs**

## 1. Introduction

According to Abor and Quartey (2010:218) SMEs are of great socio-economic significance. However, their long-term growth and competitiveness has been compromised by the chronic and often acute constraints on their access to formal-sector finance, among other systemic and institutional problems in developing countries. In South Africa, SMEs have been identified by the government as a priority in increasing jobs so as to reduce the high unemployment rate which is currently estimated at 25.5% (Statistics South Africa, 2010). The failure rate of SMEs (especially new ones) is very high. 75% of new SMEs created in South Africa fail within the first two years of operation (Von Broembsen, Wood & Herrington, 2005). FinMark Trust (2006) stipulates that various challenges and impediments cause the high failure rate of SMEs in South Africa. One of the primary causes of SME failure is non-availability of external finance (Beck, 2007:405). This is termed the “finance gap”. Pretorius and Shaw (2004:223) observe that access to external finance is needed to reduce the impact of cash flow problems for SMEs. Financing is needed for SMEs to start and expand operations, develop new products, invest in new staff or production facilities. A vast majority of SMEs depend on internal finance (contribution from the owners, family and friends). Internal finance is often inadequate for SMEs to survive and grow. A large percentage of SME failure is attributed to inadequate capital structure or resource poverty.

According to Demircuc-Kunt, Maksimovic, Beck and Laeven (2006:933) the two primary sources of external finance for SMEs are equity and debt. External equity in the form of venture capital or the stock exchange is usually not available for SMEs (Shane, 2008). Research by Berry *et al.* (2002), documents the reliance of SMEs on bank debt as a source of financing. However, access to bank debt is, paradoxically, a frequently cited challenge for SMEs. According to Smorfitt (2009) SMEs in South Africa do struggle to raise finance from banks. Stiglitz and Weiss (1981:395) refer to this phenomenon as capital rationing. Majed, Alsharayri and Dandan (2010) and Sorooshian, Norzima, Yusuf and Rosnah (2010) point out that the factors that can impact on the capital structure and performance of SMEs include firm characteristics and entrepreneurial characteristics. Firm characteristics are traits or features specific to the firm which can affect positively or negatively the performance of the firm. Firm characteristics include factors such as the age of the firm, the size of the firm and the availability of collateral and business information.

Entrepreneurial characteristics are those traits or attributes that are specific to the owner of the firm which can impact on the performance of the firm negatively or positively. Entrepreneurial characteristics include the managerial competency of the owner of the firm, networking and gender. A Meta analysis of the literature on entrepreneurial finance revealed that no study has investigated empirically the impact of firm and entrepreneurial characteristics on access to debt finance by SMEs in South Africa. This study seeks to fill the gaps in the literature.

## **2. Problem statement**

SMEs are the engine of sustained economic expansion in both developed and emerging economies. One critical success factor for entrepreneurial SMEs is gaining sufficient access to external sources of finance (Le, Venkatesh & Nguyen, 2006:211). This is particularly true in emerging economies because such resources are severely constrained. As pointed out in the background to the study, capital markets, venture capital, and angel investors seldom invest in SMEs. As such, bank loans tend to be the only significant formal source of external funding for private small and medium-sized enterprises (SMEs) in emerging economies such as South Africa. Carpenter and Petersen (2002:300) investigated the relationship between dependence on internal finance and growth of SMEs and they found out that the growth of SMEs is constrained by dependence on internal finance. In contrast, SMEs that make use of external finance exhibit growth rates far above what can be supported by internal finance. Therefore, a key challenge for many SMEs is to find a means of accessing debt finance.

Studies such as Tze-Wei Fu, Mei-Chu Ke and Yen-Sheng Huang (2002:259) and Barbosa and Moraes (2004) point out that the firms and entrepreneurial characteristics that influences SMEs access to debt finance include the age of the firm, the size of the firm, collateral and managerial competence. However, these studies were carried out in developed countries. Almosawi (2001:116) however, argue that studies done in developed countries, alone, cannot be completely used to substantiate theories on corporate finance. Studies carried out in developing countries are also very important and may reach different conclusions from those carried out in developed countries. This is because different countries have different institutional arrangements with respect to tax, bankruptcy, the roles of banks, and financial markets. Therefore, without testing for the robustness of these findings outside the environment in which they were uncovered, it is

hard to determine whether these empirical regularities are merely spurious correlations or whether they support one theory or the other. The focus of this study is to examine the impact of firm and entrepreneurial characteristics on access to debt finance by SMEs in South Africa (a developing country). Thus, the research problem for this study is:

- What is the impact of the firm and entrepreneurial characteristics on access to debt finance by SMEs in King Williams' Town, South Africa?

Providing answer(s) to this question will assist in gaining a better understanding of how SMEs can improve their access to debt finance. Solving this problem of finance will reduce the high failure rate of SMEs in South Africa.

### **3. Research objectives and hypothesis**

The primary objective of the study is to investigate empirically the impact of firm and entrepreneurial characteristics on access to debt finance by SMEs in South Africa. The primary objective will be achieved through the following secondary objectives:

- To investigate empirically the relationship between the age of the SMEs and access to debt finance from commercial banks.
- To investigate empirically the relationship between availability of collateral and access to debt finance from commercial banks.
- To investigate empirically the relationship between managerial competence and access to debt finance from commercial banks.
- To investigate empirically the relationship between networking and access to debt finance from commercial banks.
- To investigate empirically the relationship between business information and access to debt finance from commercial banks.
- To investigate empirically the relationship between demographic variables and access to debt finance from commercial banks.

### 3.1 Research hypothesis

#### ➤ *Collateral*

**H1o** There is no significant relationship between collateral and access to debt finance by SMEs from commercial banks.

**H1a** There is a significant positive relationship between collateral and access to debt finance by SMEs from commercial banks.

#### ➤ *Managerial competency*

**H2o** There is no significant relationship between managerial competency and access to debt finance by SMEs from commercial banks.

**H2a** There is a significant positive relationship between managerial competency and access to debt finance by SMEs from commercial banks.

#### ➤ *Networking*

**H3o** There is no significant relationship between networking and access to debt finance by SMEs from commercial banks.

**H3a** There is a significant positive relationship between networking and access to debt finance by SMEs from commercial banks.

#### ➤ *Age and size of the firm*

**H4o** There is no significant relationship between the age and size of SMEs and access to debt finance from commercial banks.

**H4a** There is a significant positive relationship between the age and size of SMEs and access to debt finance from commercial banks.

#### ➤ *Business information*

**H5o** There is no significant relationship between business information and access to debt finance by SMEs from commercial banks.

**H5a** There is a significant positive relationship between business information and access to debt finance by SMEs from commercial banks.

#### ➤ *Demographic variables*

**H6o** There is no significant relationship between demographic variables and access to debt finance by SMEs from commercial banks.

**H6a** There is a significant relationship between demographic variables and access to debt finance by SMEs from commercial banks.

## **4. Literature review**

### **4.1 Theoretical construct**

Capital structure is described as the mix of debt and equity that a firm uses to finance its operations (Gitman, 2003). The theoretical principles underlying capital structure can generally be described in terms of the static trade-off theory by Modigliani and Miller (1958, 1963) the agency theory by Jensen & Meckling (1976) and extended by Stiglitz and Weiss (1981) and the pecking order theory by Myers (1984). Modigliani and Miller (1963) argue that because the interest on debt is tax-deductible, thereby creating tax savings for the borrower, it becomes possible for firms to minimize their costs of capital and maximize shareholders' wealth by using debt. The tax advantage of debt makes it cheaper than equity. The mix of cheap debt with relatively expensive equity reduces a firm's cost of capital, which is the cut-off rate for investment acceptance decisions. This is known as the leverage effect of debt. According to Miller and Modigliani (1963) a firm should have 100% debt in its capital structure. This way the firm can take absolute advantage of the tax-shield. Scott (1972) and Kraus and Litzenberger (1973) point out that theoretically 100% tax shield does not exist in reality because of distress costs. Debt leads to a legal obligation to pay interests and principal. If a firm cannot meet its debt obligations it is forced into bankruptcy and incurs associated costs.

The agency theory of Jensen and Meckling (1976:306) was based on the conflicts between the shareholders and managers of the firm and the equity holders and debt holders. Conflicts between shareholders and managers arise because managers do not hold total residual claim thus they cannot capture the entire gain from their value-maximizing activities. On the other hand, conflict arises between debt holders and equity holders because debt contracts give equity holders an incentive to invest sub-optimally. The debt contract results in asymmetric distribution of the gains. According to Stiglitz and Weiss (1981:394) agency problems such as asymmetric information and moral hazards can impact on the accessibility of credit and hence the capital structure of SMEs.

Myers (1984) alludes in the pecking order theory that there is no well-defined optimal capital structure; instead the debt ratio is the result of hierarchical financing over time. Management has a preference to choose internal financing before external financing. When a firm is forced to use external financing sources, managers select the least risky and demanding source first. When it is



necessary to issue external sources, debt issuance is preferred to new equity. The pecking order theory suggests the use of external debt before the use of external equity by SMEs. Frelinghaus, Mostert and Firer (2005:9) point out that despite the disadvantages of debt (financial distress), the inadequacy of internal equity and the non-availability of external equity imply that debt is one of the principal sources of finance for SMEs.

## ***4.2 Empirical Review***

### *Firm Characteristics*

#### *Age*

According to Chandler (2009:10) the longer a firm exists and the bigger it is, the more it signals that it can weather tough economic conditions. Furthermore, by staying in business, a firm can signal that it does not adopt opportunistic behaviour. According to Klapper (2010:605), younger firms (less than 4 years) rely less on bank financing and more on informal financing. This view is also supported by Ngoc *et al.* (2009:868) which find that it is often difficult and expensive for young SMEs to access bank financing, due in large part to information asymmetry between the banks and firms. Bougheas, Mizien and Yalcin (2005:218) point out that young firms are more failure prone than older ones. Therefore, it is hypothesized that, there is a positive relationship between the age of the firm and access to debt finance from commercial banks.

#### *Size*

Burkart and Ellingsen (2004:589) state that the size of a firm has an important influence on the debt ratios as firms with more real assets tends to have greater access to long-term debt. Honhyan (2009) finds that larger firms tend to be more diversified and fail less often, so size can be an inverse proxy for the probability of bankruptcy. Cassar (2004) argues that it may be relatively more costly for smaller firms to resolve information asymmetries with debt providers. Consequently, smaller firms may be offered less debt capital. In addition, transaction costs are typically a function of scale and may be higher for smaller firms. Therefore, it is hypothesized that, there is a positive relationship between the size of the SME and access to debt finance from commercial banks.

### *Collateral*

Bougheas *et al.* (2005:214) contend that collateral is an important factor for SMEs in order to access debt finance. Collateral reduces the riskiness of a loan by giving the financial institution a claim on a tangible asset without diminishing its claim on the outstanding debt. Coco (2000:192) point out that collateral is the lender's second line of defence. Thus, collateral can solve problems derived from asymmetries in valuation of projects, uncertainty about the quality of projects and the riskiness of borrowers, and problems related to the cost of monitoring or supervising borrowers' behaviour. Collateral requirements also reduce moral hazard problems. Barbosa and Moraes (2004) argue that SMEs owners/entrepreneur that invest heavily in tangible assets tend to have higher financial leverage since they can borrow at lower interest rates if their debt is secured with such assets. As a result, it is hypothesised that there is a positive relationship between collateral and access to debt finance by SMEs from commercial banks.

### *Business information*

According to Kitindi, Magembe and Sethibe (2007:55) creditors, banks and other lenders use financial information provided by firms to analyse their present performance and predict future performance. Information obtained from the financial statements acts as indicator of borrower's future prospects and ability to service a loan. Pretorius and Shaw (2004:225) contend that a good business plan is perceived as one of the most essential documents to be prepared by the SME. Sarapaivanich and Kotey (2006:221) point out that the lack of adequate information leads to information asymmetry and credit rationing. Therefore, it is hypothesized that there is a positive relationship between business information and access to debt finance by SMEs from commercial banks.

### *Location and insurance*

Berger and Udell (2002) find that the effects that the geographic proximity to banks and customers has a relationship on a firm's use of leverage. Banks that are geographically closer to their customer firms are better able to use soft qualitative information about their customers' credit quality. Geographical proximity to either critical buyers or suppliers produces a form of enhanced environmental scanning that enables SMEs to more easily identify and exploit growth

opportunities in the market. Gilbert (2008) points out that the geographical area where the firm is launched has implications for its access to markets and resources. Firms located in metropolitan areas may therefore have higher chance of success than those located in rural areas. The South African Presidency (2008) finds that firms that are located in the urban areas are more likely to succeed than firms that are in the rural areas due to the high crime rate. Given the high crime rate in South Africa, insurance is very important. The United Nations Human Settlement Programme (2002) points out that South Africa has the dubious distinction of being amongst the world's five most-murderous nations. According to the South African Police Service Crime Statistics (2009) while the incidences of virtually all major categories of crime has fallen during the past year, business related crime is on the increase. Chidokufa (2009) finds that less than half of all South African SMEs surveyed did not have any insurance cover in the event of a crime. Consequently, it is hypothesised that location and insurance positively impacts on access to debt finance.

### *Industry*

Myers (1984) as cited in Hall, Hutchinson and Michaelas (2000) suggests that the industry in which a firm operates does not directly determine its capital structure but may do so indirectly via the nature and composition of the firm's assets. Barbosa and Moraes (2004) point out that the relationship between industry classification and financial leverage are based on the assumption that industry classification is a proxy for business risk. The rationale for this may be that firms in the same industry face the same environmental and economic conditions and, therefore, tend to cluster with respect to variance of earnings and sales. Hall *et al.* (2000) conclude however that firm specific characteristics are more important than structural characteristics of industry and financial and strategy variables have far greater explanatory power than industry specific effects. Abor (2007) finds that SMEs in the agricultural sector exhibit the highest capital structure and asset structure or collateral value, while the wholesale and retail trade industry has the lowest debt ratio and asset structure. Therefore, it is hypothesised that industry positively impacts on access to debt finance.

### *Incorporation*

Cassar (2004) notes that banks may perceive incorporation as a good signal that portrays credibility and formality of operations. Abor (2008) point out that the form of business could affect the debt-equity decisions of SMEs. Shareholders of corporations and limited companies have limited liability against losses, whereas general partners and owners of sole proprietorships have unlimited liability. Consequently, shareholder–creditor conflicts are more likely among corporations and limited companies than they are for general partners and sole proprietorships. Thus, corporations and limited liability companies may be more likely to finance their projects with equity, while sole proprietors are more likely to employ debt financing. Coleman and Cohn (2000) however find evidence suggesting a positive relationship between leverage and incorporation. It is hypothesised that incorporation positively impacts on access to credit by SMEs.

### *Entrepreneurial Characteristics*

#### *Managerial competency*

According to Hisrich and Drnovsek (2002:172) managerial competencies as measured by education, managerial experience, start-up experience and knowledge of the business positively impact on the performance of SMEs. Martin and Staines (2008) examine the importance of management competence in SMEs success. They found out that, lack of managerial experience, skills and personal qualities are found as the main reasons why SMEs fail. In South Africa, Herrington and Wood (2003) points out that lack of education and training has reduced management capability in SMEs in South Africa and account for one of the reasons for their high failure rates. Smit and Smit (2007:5) agree that South Africa has a critical shortage of skilled managers. Therefore, it is hypothesised that there is a positive relationship between managerial competency and access to debt finance by SMEs from commercial banks.

#### *Networking and relationship with bank*

Coulthard and Loos (2007) describe networking in a small firm context as an activity in which entrepreneurially oriented SME owners build and manage personal relationships with particular

individuals in their surroundings. Networking is seen as a means of raising required capital, identifying market opportunities, obtaining personnel, identifying suppliers, identifying and developing technology. According to Owualah (2002:90) long-standing relationship between a bank and SMEs owners does convey an advantage in the case of bank credit. Korkeamaki and Rurherford (2006) find however that SMEs with a close banking relationship use less debt in their financing. Networking could be expected to provide to the banks, trade creditors, venture capitalists and financial institutions information on legitimacy, which in turn should give the SMEs advantages in accessing debt finance (Ngoc, le & Nguyen. 2009:120). Consequently, it is hypothesised that networking and long relationship with banks positively impact on access to debt finance by SMEs.

### *Gender*

Abor (2008) notes that the gender of the small business owner may affect the capital structure choice of the firm. Abor (2008) argues that women-owned businesses are less likely to use debt for a variety of reasons, including discrimination and greater risk aversion. Freel, Carter, Tagg and Mason (2010) find that twice as many businesses were discouraged from applying for a bank loan than had their loan request denied in the United Kingdom Watson, Newby and Mahuka (2009) conclude that there is also no evidence that Australian SME owners (particularly female owners) are being discouraged from applying for loans from a financial institution because they believe their application will be rejected. The results suggest that other demand-side issues (particularly risk-taking propensity and desire to maintain control) play a more important role in the capital structure decision making of SME owners. Mijid (2009) finds that in the United States of America women owned firms have higher loan denial rates and lower application rates than their male counterparts. In contrast, Coleman (2000) finds that there are no significant differences in the usage of debt between men and women, and gender is not a significant predictor of financial leverage. Thus, it is hypothesised that gender does not impact on access to debt finance by SMEs.

## **5. Research methodology**

The empirical study focused on King William's Town in the Eastern Cape Province of South Africa. Data was collected through a survey using self-administered questionnaire in a survey.

The questionnaire comprised of both close-ended and open-ended questions. The study focused on SMEs which are registered with the Enterprise Directory and the Yellow Pages telephone directory. The population of SMEs was 173. Raosoft sample size calculator was used to calculate the sample size. Raosoft sample size calculator is statistical software that enables researchers to determine the sample size given the following variables: The margin of error, The confidence level, the population and the expected response distribution (Raosoft, 2010). Raosoft provided a minimum recommended sample size of 120. However, 150 questionnaires were distributed because of the limitations associated with self-administered data collection method such as non-response. Data analysis was done using the Statistical Package for Social Sciences (SPSS). Pre-testing the research instrument was done through a pilot study covering 20 respondents. The process of pre-testing helped the researcher to identify areas where the questionnaire needed corrections. Statistical analysis includes descriptive statistics, Pearson correlation and logistic regression. Validity and reliability were ensured by using a statistician and a panel of experts to evaluate the research instrument for conceptual clarity, pre-testing the research instrument in a pilot study and comprehensively reviewing the literature for theoretical constructs and empirical conclusions. Case wise deletion method was used to treat missing values. The Kolmogorov-Smirnov test was used to determine the normality of the data.

## **6. Results and Findings**

### **6.1 Demographics**

One hundred and fifty questionnaires were distributed and one hundred and seven returned. The response rate was 71%. 68% of the respondents were males and 32% females. The results indicate that SMEs owners /managers in the study area are predominantly within the age bracket of (31-40). Out of the one hundred and seven that returned the questionnaires, 91% of the respondents needed external finance, indicating that there is a high demand for credit by SMEs from commercial banks. 40% of the respondents needed external finance to invest in working capital, 57% in fixed asset and 3% in business acquisition. Only 39% of the respondents were successful in their application, indicating a high rejection rate of credit applications by the banks.

*Pearson correlation and logistic regression results for firm characteristics and access to debt finance*

**Table 1 Results of Correlation**

Item	Access to debt finance	
	R	P-value
<b>Collateral</b>		
Ownership of personal property	0.957	0.01
Ownership of business building	0.824	0.03
Insurance	0.771	0.02
<b>Managerial competency</b>		
Education	0.747	0.03
Related experience	0.859	0.01
Working experience	0.694	0.02
<b>Business information</b>		
Availability of business plan	0.834	0.04
Keeping of financial information	0.627	0.01
<b>Networking</b>		
Between one and five years	0.271	0.26
More than five years	0.329	0.18
More than ten years	0.340	0.37
Belong to a professional association	0.388	0.39
<b>Age of the firm</b>		
1-4 years	0.293	0.12
5-9 years	0.557	0.01
10-14 years	0.595	0.03
15 and above	0.681	0.02
<b>Size of the firm (no. of employees)</b>		
1-49	0.252	0.29
50-99	0.497	0.02
100-149	0.643	0.04

150-200	0.776	0.01
<b>Demographics</b>		
Gender	0.429	0.19
Legal status of the firm	0.673	0.04
Business line	0.197	0.37
<b>Age of the owner</b>		
Below 20	0.147	0.13
21 – 30	0.216	0.31
31 – 40	0.305	0.25
41 – 50	0.364	0.15
51 – 60	0.407	0.27
<b>Location of the firm</b>		
Urban	0.764	0.03
Rural	0.217	0.29

Sig. 0.05

**Table 2 Results of logistic regression**

Variable	Odd ratio	Confidence interval (95%)	P-value
<b>Collateral</b>			
Personal property	7.14	3.00-9.99	0.03
Business property	6.29	3.00-9.50	0.01
Insurance	6.02	5.50-8.25	0.04
<b>Managerial competency</b>			
Education	4.17	2.34-8.22	0.01
Working experience	3.97	1.50-5.59	0.01
Related experience	5.03	2.55-8.51	0.04
<b>Business information</b>			
Business plan	6.81	3.10-10.00	0.01
Financial information	6.11	3.27-9.91	0.03



<b>Networking and relationship</b>			
Between one and five years (reference)	1.00		
More than five years	2.83	2.16-4.63	0.38
More than ten years	3.37	2.59-6.94	0.21
Belonging to a professional association	1.49	0.50-1.59	0.33
<b>Age of the firm</b>			
1-4 years (reference)	1.00		
5-9 years	5.36	3.41-7.98	0.04
10-14 years	5.88	3.55-7.90	0.02
15 and above	6.41	3.62-8.11	0.02
<b>Size of the firm (no. of employees)</b>			
1-49 (reference)	1.00		
50-99	3.30	2.82-6-49	0.03
100-149	4.42	3.14-6.53	0.01
150-200	4.59	3.14-7.20	0.01
<b>Demographic</b>			
Gender	1.35	0.65-2.75	0.21
Legal status of the firm	5.72	2.25-7.1	0.04
Business line	2.71	2.09-6.59	0.23
<b>Age of the owner</b>			
Below 20 (reference)	1.00		
21 – 30	2.57	2.21-3.93	0.23
31 – 40	2.63	2.40-3.96	0.19
41 – 50	2.94	2.57-4.01	0.23
51 – 60	3.19	2.66-4.12	0.26
<b>Location</b>			
Urban	6.81	3.02-7.41	0.02
Rural	1.26	2.12-3.07	0.34

Sig. 0.05

For collateral, the Pearson correlation results are: personal property ( $r=0.957$ ,  $p\text{-value}=0.01$ ) and business property ( $r=0.824$ ,  $p\text{-value} 0.03$ ). The odd ratio for personal property is 7.14 with a  $p\text{-value}$  of 0.03 and the odd ratio for business property is 6.26 with a  $p\text{-value}$  of 0.01. The results of the Pearson correlation indicate that there is a significant positive relationship between the collateral and access to debt finance by SMEs. The results of the logistic regression indicate that SMEs with collateral (personal or business property) are significantly more likely to be successful in their credit applications compared to SMEs without collateral. In addition, insurance is a significant factor.

The Pearson correlation results for business information are: business plan ( $r=0.834$ ,  $p\text{-value}=0.04$ ) and financial information ( $r=0.627$ ,  $p\text{-value} =0.01$ ). The odd ratio for business plan is 6.81 with a  $p\text{-value}$  of 0.01 and the odd ratio for financial information is 6.11 with a  $p\text{-value}$  of 0.03. The results of the Pearson correlation indicate that there is a significant positive relationship between business information and access to debt finance by SMEs. The logistic regression more confirms these results.

With respect to the age of the firm, the Pearson correlation results are: for firms between 1-4 years ( $r=0.293$ ,  $p\text{-value}=0.12$ ), 5-9 years ( $r=0.557$ ,  $p\text{-value}=0.01$ ), 10-14 years ( $r=0.59$ ,  $p\text{-value}=0.03$ ), and firms that are 15 years and above ( $r=0.681$ ,  $p\text{-value}=0.02$ ). The odd ratio for firms between 5-9 years is 5.36 with a  $p\text{-value}$  of 0.04, the odd ratio for firms between 10-14 years is 5.88 with a  $p\text{-value}$  of 0.02 and the odd ratio for firms from 15 years and above is 0.681 with a  $p\text{-value}$  of 0.02. The results of the Pearson correlation indicate that there is no significant relationship between firms that are between 1-4 years and access to debt finance by SMEs. The results of the Pearson correlation also indicate that there is a significant positive relationship between firms that are older than five years and access to debt finance by SMEs. With firms between 1-4 years as the reference, the logistic regression also confirms these results. The results of the logistic regression indicate that SMEs that are more than five years old are significantly more likely to be successful in their credit application compared to SMEs that are less than five years old.

For the firm size, the Pearson correlation results are: firms with 1-49 employees ( $r=0.252$ ,  $p\text{-value}=0.29$ ), 50-99 employees ( $r=0.497$ ,  $p\text{-value}=0.02$ ), 100-149 employees ( $r=0.643$ ,  $p\text{-value}=0.04$ ), and firms that have between 150-200 employees ( $r=0.776$ ,  $p\text{-value}=0.01$ ). The odd ratio for firms that have between 50-99 employees is 3.30 with a  $p\text{-value}$  of 0.03, the odd ratio for SMEs with 100-149 employees is 4.42 with a  $p\text{-value}$  of 0.01 and the odd ratio for firms' with 150-200 employees is 4.59 with a  $p\text{-value}$  of 0.01. The results of the Pearson correlation indicate that there is no significant relationship between SMEs that have less than 50 employees (1-49 employees) and access to debt finance. The results of the Pearson correlation also indicate that there is a significant positive relationship for SMEs that have more than 50 employees and access to debt finance. With SMEs that have less than 50 employees (1-49 employees) as the reference, the logistic regression also confirms these results. The results of the logistic regression indicate that SMEs that have more than 50 employees are significantly more likely to be successful in their credit application compared to SMEs that have less than 50 employees.

The Pearson correlation results for location are: urban ( $r=0.764$ ,  $p\text{-value}=0.03$ ) and rural ( $r=0.217$ ,  $p\text{-value}=0.29$ ). The odd ratio for firms located in the urban areas is 6.81 with a  $p\text{-value}$  of 0.02 and 1.26 with a  $p\text{-value}$  of 0.34. The results of the Pearson correlation indicate that there is a significant positive relationship between SMEs that are located in the urban areas and access to debt finance. The logistic regression also confirms these results. The results of the logistic regression indicate that SMEs that are located in the towns and cities are significantly more likely to be successful in their credit application compared to SMEs located in rural areas. The Pearson correlation result for industry is 0.197 with a  $p\text{-value}$  of 0.37. The odd ratio for industry is 2.71 with a  $p\text{-value}$  of 0.23. The results indicate that there is no significant relationship between the industry (line of business) and access to debt finance.

### ***Pearson correlation and logistic regression results for entrepreneurial characteristics and access to debt finance***

The results of the Pearson correlation for managerial competency are: education ( $r=0.747$ ,  $p\text{-value}=0.03$ ), related experience ( $r=0.859$ ,  $p\text{-value}=0.01$ ) and working experience ( $r=0.694$ ,  $p\text{-value}=0.02$ ). The odd ratio for education is 4.17 with a  $p\text{-value}$  of 0.01, the odd ratio for related experience is 5.03 with a  $p\text{-value}$  of 0.04 and the odd ratio for working experience is 3.97 with a

p-value of 0.01. The results of the Pearson correlation indicate that there is a significant positive relationship between managerial competency and access to debt finance by SMEs. The logistic regression also confirms these results.

The Pearson correlation results for networking are: between one and five years ( $r=0.271$ ,  $p\text{-value}=0.26$ ), more than five years ( $r=0.329$ ,  $p\text{-value}=0.18$ ), more than ten years ( $r=0.340$ ,  $p\text{-value}=0.37$ ) and belonging to a trade association ( $r=0.388$ ,  $p\text{-value}=0.39$ ). The odd ratio for firms older than five years is 2.83 with a p-value of 0.38, the odd ratio for firms older than ten years is 3.37 with a p-value of 0.21 and the odd ratio of belonging to a trade association is 1.49 with a p-value of 0.33. The results of the Pearson correlation indicate that there is no significant relationship between networking and access to debt finance by SMEs. With firms between one and five years as the reference, the logistic regression also confirms these results. The results of the logistic regression indicate that SMEs that network are not significantly more likely to be successful in their credit application compared to SMEs that do not network. The Pearson correlation result for gender is 0.429 with a p-value of 0.19. The odd ratio for gender is 1.35 with a p-value of 0.21. The results of the Pearson correlation indicate that there is no significant relationship between the gender of the SMEs owner/manager and access to debt finance.

## **7. Managerial implications and recommendations**

For SMEs to survive and grow access to debt finance is critical. Collateral is an important determinant of credit access. This implies that SMEs without collateral will find it difficult to obtain debt finance from commercial banks. It is therefore necessary for owners of SMEs to have either business or personal assets that can be used as collateral when applying for credit facilities from commercial banks. Thus, owners of SMEs should be investment ready as Richard (2006) points out that “investors look out for very specific things when they assess requests for funding. Entrepreneurs must be made aware of the needs and concerns of particular types of investor”. Training and communication on the requirements of banks and trade creditors can help to make SME owners to get investment ready and thus improve access to debt. Commercial banks can create awareness of their funding requirements especially the importance of collateral through advertisements and communication with trade associations. In addition, government and its

agencies have, over the years, expended significant resources creating and implementing market interventions. It is vital that these interventions are effective and meet the needs of those they declare to support. It is therefore incumbent on Government and other stakeholders to ensure that these schemes, such as the Small Firm Loan Guarantee, are well publicised and made available to SMEs.

Lack of business information and managerial competencies are also important reasons why finances are not available from commercial banks. Therefore, to improve access to debt finance, there is the need for personal development by owners of the SMEs especially in the area of business and financial management skills through training. Government agencies such as SEDA and Development Corporations can organize training for SMEs. Awareness should be created for the training programmes through advertisements in local and national media. Furthermore, a “learning from peers” or mentorship can help to improve managerial competency. The high crime rate in South Africa must be reduced to improve the availability of debt from commercial banks and trade creditors. The best way to reduce crime and (and also corruption) is to make the legal system more efficient (especially the speed of court judgments) so that criminals are promptly arrested and punished. Government should work in partnership with organisations such as Business Against Crime South Africa and Business Unity South Africa. There is the need to create work opportunities for the vast number of the unemployed in South Africa. There is also a need for a well-publicized educational campaign against crime. More effective policing is needed, including better police visibility, area coverage and faster response times. SMEs should be encouraged to insure their businesses. Government can assist in subsidizing the cost of insurance.

## **8. Limitations and areas for further research**

A significant limitation of this study is that it investigated mainly internal factors. External factors of lending were not investigated. Barbosa and Moraes (2004) find out that external factors such as the economic and legal environments can impact on the access to debt finance from commercial banks. In addition, the study focused only on debt finance from commercial banks. Furthermore, the study focused on the demand side of access to debt finance (perception of SMEs) and not the supply side (perception of commercial banks). A dyadic survey to examine

the obstacles to credit as perceived by providers of funds (commercial banks) and SMEs could help to further confirm the findings of this study.

## **9. Conclusion**

Despite the significant contribution of SMEs to the South African economy, one of the factors restraining the survival and growth of SMEs in South Africa is non-accessibility of debt finance. From the research findings, it can be concluded that collateral, business information, managerial competency and age and size of the firm are some of the entrepreneurial and firm characteristics that absolutely contribute to non-accessibility of debt finance by SMEs from commercial banks. In addition, demographic variable such as the legal status of the firm also absolutely contribute on the non-accessibility of debt finance by SMEs from commercial banks.

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# **THE IMPACT OF SELECTED STAKEHOLDERS ON FAMILY BUSINESS SUCCESS**

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# THE IMPACT OF SELECTED STAKEHOLDERS ON FAMILY BUSINESS SUCCESS

## ABSTRACT

In addition to having the same stakeholders as non-family businesses, key stakeholders in family businesses are family members, including those who are active, inactive, and retired, as well as non-family members. Not only do the actions of these stakeholders influence the success of the family business, but its success or failure may also have important emotional and financial ramifications for the stakeholders involved. Paying attention to the involvement and interests of family and non-family stakeholders may help family business owners/managers to avoid decisions that might lead stakeholders to interfere with the family business. Consequently, the primary objective of this study is to evaluate the impact of selected stakeholders (non-family members, inactive family members, the senior and incumbent generations) on the success of family businesses.

Respondents were identified by means of convenience sampling, and in total, 468 usable questionnaires were returned. The data collected was subjected to various statistical analyses. Exploratory factor analysis was undertaken, and Cronbach-alpha coefficients were calculated to assess respectively the validity and reliability of the measuring instrument. Multiple linear regression analysis was performed to determine whether selected stakeholders, namely *Non-family members*, *Inactive family members*, the *Senior generation* and the *Incumbent generation*, have a significant influence on the success of the family business. Success, for the purpose of this study, was measured using two variables, *Family harmony* and *Perceived future continuity*.

The findings of this study show that the more satisfied the personal ambitions and needs of family members working in the family business are, the more harmonious will be family relationships and perceptions of business continuity. Furthermore, the less that inactive family members are involved or interfere in the family business, the more harmonious relationships in the family will be, and the more likely the business is to continue into the future. Interestingly, the findings show that involvement or non-involvement of non-family members in the family

business, has no influence on the relationship between family members, or on the perceived future continuity of the family business.

**Keywords** Family business, inactive stakeholders, active stakeholders, continuity, family harmony.

## INTRODUCTION AND PROBLEM STATEMENT

Family businesses derive their special nature from the influence of family on business (Hall and Nordqvist, 2008; Leach, 2007). This being said, the issues pertaining to family relationships have been identified as being the primary influencing threat to the growth, success, and survival of family businesses. It is from conflict-laden family relationships that many family issues emanate (Molly, Laveren and Deloof, 2010), and managing both family and business seems to be a constant challenge (Schuman, Stutz and Ward, 2010). However, although it can cause some threats, the participation of non-family members creates opportunities for the family business (Farrington, Venter and Boshoff, 2010). Therefore, the impact that various stakeholder groups have on family harmony in family businesses is a topic that merits attention.

A vital factor that affects the continuation of multi-generational transfers is the interpersonal dynamic between members of family businesses (Friedman, 1991). When engaging with decisions relating to the family business, the family members frequently represent intense private and interpersonal issues (Rodriguez, Hildreth and Mancuso, 1999). Alliance politics between family members and overflowing family disagreements are primary concerns in family businesses (Kets de Vries, 1993). The management of a family business focuses primarily on maintaining family relationships rather than running the business (Mount, 1996).

The value of family interactions will determine the success of family enterprises as well as the success of the contingency process (Lansberg, 1999). The family should be clear about the positive link between the longevity of the business and the well-being of the family (Ibrahim, McGuire and Soufani, 2009; Venter and Boshoff, 2006). In order to nurture and strengthen family member harmony, faith, and contentment, astute family business leaders will devote a significant amount of energy to ensuring that such an environment is created (Ward, 1997). Family business leaders know that when they encounter difficulties in the business, such as conflict between family members, both the success of the business and the relationships among family members are at risk (Visser and Strydom, 2010). Despite the challenges and contradictions that the concept of family business and family relationships may represent, it has been proven that family businesses still achieve extraordinary outcomes, often more so than non-



family businesses (Gordon and Nicholson, 2010; Schuman *et al.*, 2010), a fact which emphasises the need for further research into what can be done to increase family harmony and eventually the continuity of family businesses. The present study attempts to address this challenge by investigating the influence of selected stakeholder groups on the success of small and medium-sized family businesses. For families to add value and not poison the business, attention needs to be paid to family relationships (Gordon and Nicholson, 2010).

Success, for the purpose of this study, is measured using two variables, namely *Family harmony* and *Perceived future continuity*. For the purpose of this study, a small and medium-sized family business is one where a single family owns at least 51% of the equity of the business; where a single family is able to exercise considerable influence in the business; where at least two family members are concerned with the senior management of the business; and where the business employs fewer than 200 full-time employees. This research will therefore focus on the impact of various stakeholder groups on family harmony, and ultimately on the perceived future continuity of a family business. Key stakeholders identified as influencing family business success are the senior generation (parents), the incumbent generation (children), inactive family members (e.g. spouses, siblings and parents), and non-family members (including non-family employees).

The primary objective of this research is twofold: first to evaluate and empirically test the impact of the involvement of these stakeholders on family harmony and ultimately on the perceived future continuity of the family business, and second to suggest recommendations that could assist family business leaders to successfully manage stakeholder relationships in their businesses.

## **KEY STAKEHOLDER RELATIONSHIPS AFFECTING THE SUCCESS OF FAMILY BUSINESSES**

Traditional input-output models of economic activity propose that businesses convert the inputs of investors, employees, and suppliers into usable outputs, which are then sold to customers and consequently result in capital benefits for the business. According to this model, businesses only address the needs and wishes of those four key parties, namely investors, employees, suppliers, and customers (Farrington, 2009). Stakeholder theory, on the other hand, recognises that there

are also other parties who are important to the successful functioning of a business (Stakeholder Theory, 2006). Instrumental approaches to stakeholder theory hold that to maximise shareholder value over an uncertain time-frame, managers ought to pay attention to key stakeholder relationships. Business in general and family businesses in particular have a stake in the behaviour of their stakeholders, and attention to stakeholder issues may help a firm to avoid decisions that might prompt stakeholders to undercut or counteract the firm's objectives (Farrington *et al.*, 2010).

Stakeholder theory clearly has important implications for family businesses. Paying attention to both family and non-family stakeholder issues and relationships may help family businesses to avoid decisions that might prompt stakeholders to sabotage the family harmony in the family business, as well as its continuity.

In addition to having the same stakeholders as other non-family businesses, key stakeholders in family businesses are: family members, including those having a financial investment in the business, such as parents (Lansberg, 1999; Ward, 2004); non-active members (Aronoff, Astrachan, Mendosa and Ward, 1997; Gersick, Davis, McCollom Hampton and Lansberg, 1997); and those who do not have a financial investment in the business, such as retired owners, spouses and non-family members (Aronoff *et al.*, 1997; Gersick *et al.*, 1997; Lansberg, 1999; Schiff Estess, 1999). Family and non-family employees, as well as family members who are not actively involved in the family business, can be considered as stakeholders in the family business (Poza, Alfred and Maheshwari, 1997). The actions of these family and non-family members not only influence the success of a family business, but can also affect the success or failure of the business, with important emotional and financial implications for the family members (Farrington, 2009).

Even though clients, suppliers, competitors, service providers (including financial services providers) and the community can also be classified as stakeholders of the family business, the focus of this study was on investigating the influence of stakeholders that have a more direct influence on the family business, either by being family members or actively involved in the business.

## **Dependent and Intervening Variables: Perceived future continuity and Family harmony**

The dependent variable and the intervening variable in this study is *Perceived future continuity* of a family business and *Family harmony* respectively. For the purpose of this study, *Perceived future continuity* refers to the family business providing future generations with employment, wealth, involvement, and a legacy, while *Family harmony* refers to relationships between family members characterised by support, appreciation, care, emotional attachment, and co-operation.

Commitment of the family to the future continuity of the business is a priority, as it supports the development of the shared future vision and the family business continuity plan (Carlock and Ward, 2001). The future component “continuity” needs to include the family’s commitment to nurturing the business and supporting subsequent future generations with both employment opportunities and financial assistance (Miller and Le Breton-Miller, 2005). In the same manner Zellweger and Nason (2009) is of the opinion that performance outcomes in family firms could be broadly categorised as financial and non-financial. In other words, if a family business is characterised by disharmonious family relationships and poor financial performance, it is highly unlikely that family and non-family stakeholders will find their involvement in the family business to be satisfying, let alone be committed to its future continuation (Farrington *et al.*, 2010).

Cater and Justis (2009) assert that non-economic goals may take precedence over goals such as growth and profitability in family businesses. In family business research, non-economic goals such as the satisfaction of family members involved in a family business is commonly associated with success (Distelberg and Sorenson, 2009; Farrington *et al.*, 2010; Zellweger and Nason, 2008). Hess (2006:x) states that a successful family business is one that does not destroy or weaken family harmony. Both anecdotal and empirical evidence propose that harmonious relationships among family members are essential for successful family businesses as well as successful succession (Eybers, 2010; Farrington, 2009; Flören, 2002; Sharma, 2004; Ward, 2004). In other words, to survive and to be successful, family members need to nurture their personal relationships with one another, as well as other non-family stakeholders (Swart, 2005).

According to Santiago (2000), the continuation of the family business is regarded as having very high value; therefore the more cohesive the family, the greater the aspiration to share the responsibility of continuing with the family business. In addition, Santiago (2000) revealed that families who are highly committed view the business as an ongoing legacy and are clear about the positive link between the longevity of the family business and the family's well-being. These findings are consistent with those of Lansberg and Astrachan (1994) who reported that cohesive families are usually committed to the continuation of the business, planning for succession, and training the successor. Dyer (1986) has also found that families, who mutually support one another and work well together, are more likely to transfer the business effectively to the next generation.

Various empirical research studies (Letele-Mataboee, 2009; Slaughter, 2009; Van der Merwe and Ellis, 2007) support the relationship between perceived future continuity and family harmony in a family business. Slaughter (2009) in his research found a relatively strong linear relationship between perceived future continuity and family harmony. Letele-Mataboee (2009) found that the respondents in the study (active and inactive members) strongly agreed with the constructs that had an impact on family harmony, namely the incumbent generation (personal needs alignment), senior generation and inactive family members, in order of importance, while it was found that the respondents had a lower agreement with the non-family members construct measuring family harmony.

In her study on factors influencing successful successions Venter (2003) found that family harmony is strongly correlated with agreement by family members to carry on the family business as a family concern. Malone (1989) also found a positive relationship between perceived family harmony and continuity planning. This implies that the greater the level of family harmony, the greater the possibility that business continuity will occur (Farrington, 2009). In contrast, Sharma (1997) reported that family harmony has no significant impact on the agreement of the family members with regard to the continuation of the business. Various other authors found a positive relationship among family harmony and the viability and continuity of a family business (Barach and Gantisky, 1995; Friedman, 1991; Santiago, 2000), which is

challenged and contrasted by Sharma's (2003) findings. The overall pressure in a family business will predict the successful attainment of the business goals, while the well-being of the family will predict the successful accomplishment of family goals (Danes, Zuiker, Kean and Arbuthnot, 1999). Based on this discussion, the following relationship is hypothesised:

H<sup>1</sup>: There is a positive relationship between the level of *Family harmony* and *Perceived future continuity* in the family business.

### **Independent Variables: Key Stakeholder Groups**

The key stakeholder groups, which form the independent variables of this study, include: *Non-family members* (including non-family employees), *Inactive family members*, the *Senior generation* (parents) as well as the *Incumbent generation* (children). The primary objective of this study is to test the impact of the involvement of these stakeholders on family harmony and ultimately on the perceived future continuity of the family business. For the purpose of this study, however, the concept of "involvement" is seen from two perspectives, namely a physical perspective and an emotional perspective. With respect to *Non-family members* and *Inactive family members*, their involvement in the family business is related specifically to them being physically involved in terms of them participating and/or interfering in the family business, or not. On the other hand, the *Senior generation* and the *Incumbent generation* are already physically involved in the family business. It would thus make no sense to measure their involvement in this context. Consequently, the involvement of the *Senior generation* and the *Incumbent generation* is measured in terms of their emotional involvement. This emotional involvement will be evident in terms of whether they are still contributing to the business and have the best interests of the business at heart, as is the case of the senior generation; and in the case of the incumbent generation whether they are achieving their personal goals and experiencing fulfilment.

## *Non-family Members*

For the purpose of this study, *Non-family members* refers to non-family members involved in the business who offer expertise and skills, and form part of the management team as well as assisting in strategic business decisions. These non-family members include people such as outside professionals, experts, consultants, advisors, and non-family employees.

A considerable amount of anecdotal evidence and empirical evidence suggests that *Non-family members* can play an important role in either the maintenance of positive relationships (Aronoff *et al.*, 1997; Lansberg, 1999; Maas, Van der Merwe and Venter, 2005) or in the creation of conflict (Aronoff *et al.*, 1997; Harvey and Evans, 1995; Neubauer, 2003) between family members. In their study, Fahed-Sreih and Djoundourian (2006) found that the inclusion of non-family members in leading positions appeared to be more suitable than including spouses in these top positions (Farrington, 2009). In contrast, Farrington (2009) found that no significant relationship exists between non-family members' involvement and satisfaction with work and family relationships.

Leach (2007) is of the opinion that by being outward-looking and willing to take advantage of external skills, family businesses are better able to grow and respond successfully to change. Chosen wisely, „outside“ professional advisors and consultants offer an extra dimension of competence, experience and objectivity to issues affecting both the family and the business. They can also contribute significantly to the professionalism and growth potential of the family business and in that way increase the future continuity of the family business (Leach, 2007). In his study, Robinson (1982) identified that small businesses engaging outsiders (non-family members) in their strategic planning, experienced greater increases in their efficiency than their counterparts who did not follow this practice. A positive relationship was found by Malone (1989) between the percentage of outsiders (non-family members) on the board of directors and the level of continuity planning within the business. A characteristic of efficient family businesses is the readiness to acquire expertise from experienced professionals, as suggested by the empirical results of Sorenson (2000:198). Successful family businesses deem the involvement of professional or experienced non-family managers in their business to be an

exceptional procedure for obtaining both outside perspective and wisdom (Schiff Estess, 1999). It has been noted by Potziouris, Smyrnis and Klein (2006) that family businesses with outside assistance report enhanced levels of performance stemming from professional advice.

Both Eybers (2010) and Farrington (2009) found a positive relationship between non-family member involvement and the growth performance of the family business. This relationship indicates that the respondents in their studies are of the opinion that the more non-family members are involved in the family business, the greater both the financial and growth performance of the business will be. One can therefore also conclude that this relationship indicates that non-family member involvement positively influences the perceived future continuity and success of family businesses. In addition, Eybers (2010), Sharma (2004) and Ward (2004) state that non-family members frequently make a pivotal contribution to the growth and success of the family business. Despite the findings of Farrington (2009), it is hypothesised that:

H<sup>2a</sup>: There is a positive relationship between the involvement of *Non-family members* and the level of *Family harmony* in the family business.

H<sup>2b</sup>: There is a positive relationship between the involvement of *Non-family members* and the *Perceived future continuity* of the family business.

### ***Inactive Family Members***

For the purpose of this study, *Inactive family* members refers to inactive family members not being involved in the family business in terms of interfering in the business decision-making or disagreements.

Inactive sibling shareholders can exercise considerable influence on the ability of the siblings and other family members to work together, either in a positive or negative way, as well as influencing the success of the family business (Maas *et al.*, 2005; Van der Heyden, Blondel and Carlock, 2005). Molly *et al.* (2010) assert that an increase in the number of passive family shareholders may lead to intrafamily conflicts. The behaviour of spouses/inlaws is an especially important factor that influences whether members of the sibling team will be able to work

together successfully and in a manner that is reasonably harmonious (Farrington *et al.*, 2010). Regardless of a spouse's degree of direct participation in the business, spousal behaviour permeates family relationships, and can affect business performance by influencing the entrepreneur's attitudes, resources, and motivation toward the business (Poza and Messer, 2001; Van Auken and Werbel, 2006).

The joining of spouses/inlaws makes family relationships more complicated, conflict normally intensifies (Fishmen, 2009; Zheng, 2002), and inlaws are often seen as being responsible for this (Aronoff *et al.*, 1997; Gersick *et al.*, 1997; Lansberg, 1999). Davis and Harveston (1999) reveal that conflict is higher among second-generation family firms when the spouse remains active in the family business and lower when the spouse is no longer active in it. In their study, Fahed-Sreih and Djoundourian (2006) find that non-family members in leading positions seem to be more acceptable than spouses/inlaws in these positions.

In her study, Farrington (2009) finds that there is a positive correlation between inactive family members and financial performance. This implies that the respondents in her study believe that the less inactive family members and spouses are involved and/or interfere in the family business, the greater the financial performance of the business will be. This can also mean that the less inactive family members are involved in the family business, the greater perceived future continuity and the chance of success will be. In contrast, Maas *et al.* (2005) and Schiff Estess (1999) found that other family members such as spouses, siblings and parents can be trusted as employees, generally have a dedicated understanding of the causes and effects of conflict in the family business, and are more objective than family members actively involved in the business (Farrington, 2009). In an effort to clarify these contradicting viewpoints and findings concerning the influence of inactive family members, is therefore hypothesised that:

H<sup>3a</sup>: There is a positive relationship between *Inactive family members* not interfering in the family business and the level of *Family harmony* in the family business.

H<sup>3b</sup>: There is a positive relationship between *Inactive family members* not interfering in the family business and the *Perceived future continuity* of the family business.



## *Senior Generation*

For the purpose of this study, *Senior generation* refers to their willingness to delegate authority, share important information concerning the business and relinquish control, as well as ensuring that they will be financially secure after retirement.

A great deal of anecdotal evidence proposes that the present involvement and/or interference of parents in the business and in the present-day relationships among the children, has an impact on the ability of siblings to work with one another, on the relationship between the siblings as adults, as well as on the success of the family business (Aronoff *et al.*, 1997; Colin and Colin, 2008; Harvey and Evans, 1995; Lansberg, 1999; Sharma, 2004; Swogger, 1991; Ward, 2004). Davis and Harveston (1999) support this anecdotal evidence with their finding that conflict is greater between second-generation family businesses when the founder continues to be actively involved in the family business, than when the founders are no longer actively involved.

Kets de Vries, Carlock and Florent-Treacy (2007) emphasise that conflict between family and business practices inevitably deepens in times of transition. This is because the family members are facing significant changes in roles and responsibilities, requiring them to negotiate new interpersonal relationships. A study conducted by Smyrnios *et al.* (1998) found that the primary objectives of family business owners (senior generation), predominantly first-generation owners, are to accumulate wealth and increase the value of their businesses.

According to Venter (2003), financial security of the owner-manager and the family business is a vital determinant of the respondents' satisfaction with the succession process, as well as their perception of the continued profitability of the family business. She finds that the more financially stable the business and the owner-manager are at the time of the owner-manager's exit, the greater is the likelihood of the business continuing to be profitable, as well as the more satisfied all the stakeholders will be with the succession process. From this it can be assumed that when the various stakeholders perceive the financial security of the senior generation as being satisfactory, it will lead to increased family harmony and perceived future continuity of the family business.

In their study of Farrington *et al.* (2010) respondents were of the opinion that the more their parents were involved in their lives and in their relationships while they were growing up, the more likely their business is to experience growth performance, and the more likely they are to be being satisfied with their current work and family relationships. In this study a significant positive relationship was also found between no present parent involvement and siblings' satisfaction with work and family relationships. In other words, the less the parents of siblings are currently involved and/or interfere in the business and in the present-day relationship between the siblings, the more likely the siblings are to experience their work and family relationships as satisfying.

In contrast, in Visser and Strydom's study (2010) on stakeholders that influence family harmony and perceived continuity, the factor senior generation did not load as expected during the factor analysis and were excluded from further analysis. Despite the finding of Visser and Strydom, the following relationships are hypothesised:

H<sup>4a</sup>: There is a positive relationship between the *Senior generation* and the level of *Family harmony* in the family business.

H<sup>4b</sup>: There is a positive relationship between the *Senior generation* and the *Perceived future continuity* of the family business.

### ***Incumbent Generation***

For the purpose of this study, *Incumbent generation* refers to active family members being able to realise their personal ambitions and satisfy their career needs in the context of the family business, as well as finding their involvement in the family business to be fulfilling. According to Leach (2007), the next generation have a unique opportunity to build a challenging and enriching career for themselves in the family business, enjoying several advantages when doing so. In addition, Kenyon-Rouvinez and Ward, (2005) stresses that the alignment between the business goals and those of family members can create a unity of purpose that should enable much greater business agility and a wider range of strategic options. Fostering alignment of

personal and business needs is essential to optimize the health of the family business and enable its long-term success.

In her study on succession, Venter (2003) has found that the willingness of the successor to take over the family business is positively correlated with both the satisfaction with the succession process and the continued profitability of the business. Various other researchers (e.g. Shepherd and Zacharakis, 2000; Van der Merwe, 1999) concur with this result. Venter also supports the suggestion made by Handler (1989) that the more the personal needs of a next-generation family member can be met in the context of a family business, the greater the chance that the person will experience the succession process as positive and will have a willingness ensure the continuation of the family business. Sharma (1997) also found that the alignment of career interests of the successors in family businesses has an influence on their willingness to take over the business.

In her study among siblings in business together Farrington (2009) reported that the more the siblings were able to realise their own dreams through their involvement in the Sibling Partnership, the more likely it is that they will be satisfied with their work and family relationships. Eybers (2010) reported similar finding in her study among spouses in business together. The more spouses were able to realise their personal goals and ambitions through their involvement in the copreneurship, the more likely the business is to perform financially, and the more likely they are to experience their involvement as satisfying and beneficial it is therefore hypothesised that:

H<sup>5a</sup>: There is a positive relationship between the *Incumbent generation* and the level of *Family harmony* in the family business.

H<sup>5b</sup>: There is a positive relationship between the *Incumbent generation* and the *Perceived future continuity* of the family business.

## PROPOSED HYPOTHETICAL MODEL

The family and non-family member stakeholders included in this study (see Figure 1) are justified by a sufficiency in theory in the family business literature, and claims are not made that the model has an exhaustive coverage of every possible relationship influencing family harmony and the perceived future continuity of the family business.

**Figure 1: PROPOSED HYPOTHESISED MODEL: THE IMPACT THAT SELECTED STAKEHOLDER GROUPS HAVE ON *FAMILY HARMONY* AND THE *PERCEIVED FUTURE CONTINUITY***

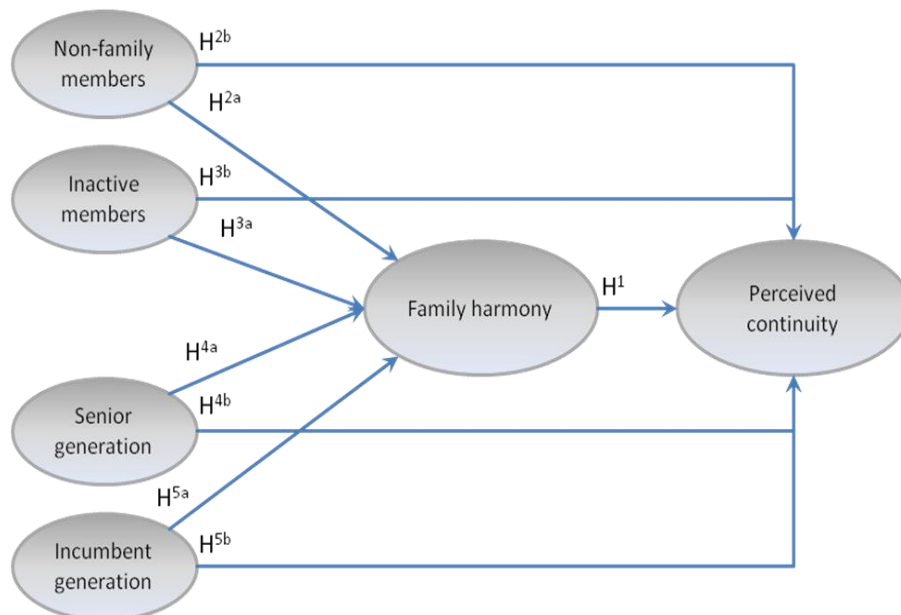


Figure 1 (the hypothesised model) demonstrates the impact that selected stakeholder groups, namely the *Senior generation* (parents), the *Incumbent generation* (children), *Inactive family members* (eg. spouses, siblings and parents), and *Non-family members* (including non-family employees), have on the intervening variable *Family harmony*, as well as on the dependent variable, namely the *Perceived future continuity* of family businesses. The relationship between *Family harmony* and *Perceived future continuity* will also be investigated, illustrated in Figure 1.

## RESEARCH METHODOLOGY

### Population studied

The target population of this study was small and medium-sized family businesses in South Africa. Numerous attempts were made to secure a database of family businesses in South Africa, but to no avail. Therefore, it was decided to use a convenience sample, by means of the snowball sampling technique, to identify the family businesses that participated in this study. A list of 420 family businesses willing to participate in the study was compiled as a result of these efforts. The sampling technique and methodology are consistent with that of other family business researchers who have been constrained by the lack of a national database on family businesses (Adendorff, 2004; Eybers, 2010; Farrington, 2009; Sonfield and Lussier, 2004; Van der Merwe and Ellis, 2007; Venter, 2003).

### Scale development

Each individual factor that was subjected to investigation was operationalised by means of dependable and valid items obtained from validated measuring instruments used in prior empirical studies of a similar nature (e.g. Adendorff, 2004; Eybers, 2010; Farrington, 2009; Slaughter, 2009; Van der Merwe and Ellis, 2007; Venter, 2003). Self-generated items identified through secondary sources were also used to empirically test the factors. As proposed in the hypothesised model, the items were rearticulated to make them more appropriate for the current study, and then used to empirically test the relationships hypothesised in Figure 1.

The researchers employed the survey technique to conduct their study. The potential participants of the study were given a self-administered questionnaire to complete. The first section of the questionnaire, section A, comprises 37 items pertaining to the involvement of the various family and non-family stakeholders in the family business, along with items measuring the level of *Family harmony* and *Perceived future continuity* in the family business. A seven-point Likert-type interval scale was used (1 = Strongly disagree and 7 = Strongly agree), where the participants were invited to indicate their extent of agreement with each statement. Demographic

details relating to the respondent and the family business was requested in section B of the questionnaire.

### **Data collection and analysis**

Family businesses listed on the database were contacted to identify the individual family members in the particular family. Questionnaires were then mailed to these family members. Each questionnaire was sent with a covering letter that guaranteed the confidentiality of the responses, as well as a return-paid envelope in order to make it as easy as possible for respondents to take part in the research. A total of 468 questionnaires were returned (response rate of 45.09%) from 80 family businesses and subjected to further statistical analysis.

The validity of the measuring instrument was assessed by means of an exploratory factor analysis and reliability by calculating Cronbach alpha coefficients. The relationship between the dependent and independent variables was examined by means of multiple regression analysis.

## **EMPIRICAL RESULTS**

### **Sample description**

Slightly more of the respondents (51.5%) were males, and 48.3% were female. Most of the respondents were married (71.6%), while the remaining respondents were single (22.0%); divorced (4.1%) or widowed (2.1%). Concerning the age of the respondents, 26.7% of them were younger than or the age of 29; 24.4% were between the ages of 30 and 39; 21.2% between the ages 40 and 49; 17.9% between the ages of 50 and 59, and the remainder 9.8% were above the age of 60.

Of the 468 respondents who participated in the study, 60.5% were actively involved in the family business, while 39.5% were inactive. All the businesses that participated in the study (n=80), could be categorised as small and medium-sized family businesses (thus employing fewer than 200 employees). The majority (76.9%) of the businesses that participated in the study operated

as an intergenerational family business, while 16.0% operated as sibling and 7.1% as copreneurial family businesses.

### **Discriminant Validity and Reliability Results**

An exploratory factor analysis (see Table 1) was conducted to identify the unique factors present in the data and as such assess the discriminant validity of the measuring instrument. The software programme SPSS 17 for Windows was used for this purpose. In this study, there was theoretical justification to believe that the factors measuring the dependent and intervening variables would correlate with each other, therefore a Principle Axis Factoring with an Oblique (Oblimin with Kaiser normalisation) rotation was performed on the principal components of the exploratory factor analysis, as suggested by Field (2009).

Cronbach's Alpha was used to assess the internal consistency of the measuring instrument in this study. The software programme SPSS 17 (SPSS 2009) was used to calculate the Cronbach-alpha coefficient for each factor identified by means of the exploratory factor analysis. In this study a Cronbach-alpha coefficient of greater than 0.70 (Nunnally and Berstein, 1994) was employed to indicate a factor as reliable.

All 8 items expected to measure the construct *Family harmony* (the mediating variables in this study) loaded together on one factor. *Family harmony* explained 38.13% of the variance in the data, therefore providing sufficient evidence of discriminant validity for this scale. *Family harmony* reported an Eigenvalue of 10.30 and factor loadings of greater than 0.50 (Table 1). The Cronbach-alpha coefficient of 0.911 for *Family Harmony* suggested that the instrument used to measure this construct was reliable.

Only 4 of the 6 items intended to measure *Perceived future continuity* (the independent variable in this study) loaded together as expected. The items CONTIN1 and CONTIN6 did not load on any of the factors and were therefore not used in subsequent analyses. *Perceived future continuity* reported an Eigenvalue of 1.32 and factor loadings of greater than 0.54 (Table 1). *Perceived future continuity* explained 4.91% of the variance in the data, thus providing sufficient

evidence of discriminant validity for this construct. The Cronbach-alpha coefficient of 0.865 for *Perceived future continuity* implies that the instrument used to measure this construct was reliable.

Of the six items intended to measure the factor *Non-family members*, only 5 items loaded together as expected. The item NONFAM2 did not load as expected and was therefore not used in subsequent analyses. An Eigenvalue of 2.50 and factor loadings of greater than 0.48 were reported in Table 1. The factor *Non-family members* explained 9.25% of the variance in the data. Sufficient evidence of discriminant validity was therefore provided. The Cronbach-alpha coefficient for *Non-family members* was 0.777, implying that the measuring instrument used to measure the construct was reliable.

Of the original 4 items intended to measure the construct *Inactive family members*, all four loaded onto this factor as expected. An Eigenvalue of 1.71 and factor loadings of greater than 0.58 were identified for this factor (Table 1). *Inactive family members* explained 6.32% of the variance in the data. Sufficient evidence of discriminant validity was therefore provided for this construct. The Cronbach-alpha coefficient for *Inactive family members* was 0.781, suggesting that the measuring instrument used to measure this construct was reliable.

Only 5 of the 8 items originally used to measure the factor *Incumbent generation* loaded together. The item SENIOR1 originally used to measure the *Senior generation* loaded onto the factor *Incumbent generation*. The items INCUMG2, INCUMG3 and INCUMG5 did not load at all and were therefore not used in subsequent analyses. An Eigenvalue of 1.22 and factor loadings greater than 0.40 (absolute values) were reported in Table 1. *Incumbent generation* explained 4.51% of the variance in the data, thus providing sufficient evidence of discriminant validity. The Cronbach-alpha coefficient of 0.873 for *Incumbent generation* suggests that the instrument used to measure this construct was reliable.



**Table 1: FACTOR STRUCTURE FOR THE DEPENDENT AND INDEPENDENT VARIABLES**

Items	Factor				
	Family harmony	Non-family members	Inactive members	Perceived continuity	Incumbent generation
<b>HARMONY3</b>	<b>.794</b>	<b>.008</b>	<b>.116</b>	<b>-.023</b>	<b>-.024</b>
<b>HARMONY5</b>	<b>.739</b>	.058	-.004	.021	-.057
<b>HARMONY4</b>	<b>.692</b>	-.036	.076	.155	.034
<b>HARMONY7</b>	<b>.625</b>	.014	.143	-.025	-.177
<b>HARMONY1</b>	<b>.604</b>	.017	-.039	.110	.111
<b>HARMONY2</b>	<b>.587</b>	.087	-.023	-.007	-.220
<b>HARMONY6</b>	<b>.506</b>	-.022	.089	.063	-.168
<b>HARMONY8</b>	<b>.504</b>	-.004	.263	.069	-.129
<b>NONFAM4</b>	-.035	<b>.818</b>	-.017	.052	.028
<b>NONFAM5</b>	.063	<b>.718</b>	-.094	.021	.019
<b>NONFAM3</b>	.027	<b>.648</b>	.034	-.060	.018
<b>NONFAM6</b>	.025	<b>.571</b>	-.013	-.056	.006
<b>NONFAM1</b>	-.078	<b>.480</b>	.074	.086	-.040
<b>INACTIVE1</b>	-.065	.013	<b>.766</b>	.071	.088
<b>INACTIVE2</b>	.048	-.008	<b>.722</b>	.090	.072
<b>INACTIVE3</b>	.074	.057	<b>.584</b>	-.120	-.132
<b>INACTIVE4</b>	.087	-.040	<b>.579</b>	-.034	-.116
<b>CONTIN4</b>	.123	.010	.051	<b>.711</b>	-.114
<b>CONTIN2</b>	.024	.026	.037	<b>.616</b>	-.141
<b>CONTIN3</b>	.160	.068	.064	<b>.565</b>	-.087
<b>CONTIN5</b>	.258	.053	.031	<b>.537</b>	-.162
<b>INCUMG7</b>	-.067	.039	.042	.184	<b>-.763</b>
<b>INCUMG 8</b>	-.028	.049	.046	.045	<b>-.736</b>
<b>INCUMG 4</b>	.024	-.006	.107	.062	<b>-.703</b>
<b>INCUMG 1</b>	.101	-.029	-.077	.132	<b>-.565</b>

<b>INCUMG 6</b>	.211	-.017	.062	.157	<b>-.530</b>
<b>SENIOR 1</b>	.295	.134	.017	-.188	<b>-.402</b>

\* Factor loading greater than or equal to 0.4 were considered significant

### **Relationship between the Constructs**

Multiple linear regression was performed to determine whether the independent variables, identified as *Non-family members*, *Inactive family members* and *Incumbent generation* had a significant influence on *Family harmony* and *Perceived future continuity*. For the purpose of the regression models, *Family harmony* and *Perceived future continuity* were considered the dependent variables.

### **Regression Analysis Results – *Family harmony***

Based on the multiple linear regression analysis, it was ascertained that the independent variables explained 56.9% of the variance in *Family harmony*. A positive relationship was found between *Family harmony* and the independent variables, namely *Incumbent generation* (16.845;  $p < 0.001$ ) and *Inactive family members* (7.232;  $p < 0.001$ ) (Table 2). This result implies that the more the personal ambitions and needs of the family members working in the family business are satisfied, the more harmonious family relationships in the business are likely to be. Taking the operationalisation of *Inactive family members* into account, namely referring to inactive family members not being involved in the family business, a significant positive relationship between *Inactive family members* and *Family harmony* thus implies that a positive relationship exists between them not being involved and harmonious family relationships. In other words, the less those *Inactive family members* are involved with or interfere in the family business, the more harmonious will relationships within the family be. Based on the results of the study, support is therefore found for the following hypotheses:  $H^{3a}$  and  $H^{5a}$ .

The results of the multiple regression analysis showed that *Non-family members* had no significant influence on *Family harmony*. This implies that whether *Non-family members* are involved in the family business or not, has no influence on the relationships between family

members. As a result of this finding, no support was found for H<sup>2a</sup>. H<sup>4a</sup> could not be tested, because the items of the *Senior generation* did not load on the factor analysis as expected.

**Table 2: INDEPENDENT VARIABLES AND FAMILY HARMONY**

Independent variables	Beta coefficients	t-value	p-value
(Constant)		11.212	0.000
Incumbent generation	0.593	16.845	0.000*
Inactive family members	0.247	7.232	0.000*
Non-family members	0.606	1.884	0.060

(\*p<0.001); R<sup>2</sup> = 0.569

### Regression Analysis Results – *Perceived Future Continuity*

The findings of this study showed that the independent variables explained 42.6% of the variance in the *Perceived future continuity* of a family business (Table 3). Two of the independent variables displayed positive linear relationships with the dependent variable, *Perceived future continuity*, namely *Incumbent generation* (13.890; p<0.001) and *Inactive family members* (4.051; p<0.001). This implies that the more the personal ambitions of family members are realised and their career needs satisfied in the family business, the more likely the family business will be perceived as being able to provide opportunities and a legacy for future generations. As in the case of *Family harmony*, the less *Inactive family members* are involved or interfere with the decision-making and disagreements that occur in the family business, the greater the likelihood that the family business will provide employment, opportunities and wealth for future family members. Consequently, support is found for the following hypotheses: H<sup>3b</sup> and H<sup>5b</sup>.

As in the case of *Family harmony*, the results of this study show that *Non-family members* have no influence on *Perceived future continuity* of the family business. This implies that whether *non-family members* are involved in the family business or not, has no influence on the family business providing employment and wealth for future generations. No support was thus found for hypothesis H<sup>2b</sup>. Hypothesis H<sup>4b</sup> could not be tested, because the items of the *Senior*

*generation* did not load on the factor analysis as expected. No relationship was also found between *Family harmony* and *Perceived future continuity in this study*. No support was thus found for hypothesis H<sup>1</sup> either.

**Table 3: INDEPENDENT VARIABLES AND *PERCEIVED FUTURE CONTINUITY***

<b>Independent variables</b>	<b>Beta coefficients</b>	<b>t-value</b>	<b>p-value</b>
(Constant)		11.862	0.000
Family harmony	0.043	1.401	0.162
Incumbent generation	0.562	13.890	0.000*
Inactive family members	0.159	4.051	0.000*
Non-family members	0.020	.0554	0.580

(\*p<0.001); R<sup>2</sup> = 0.426

## **DISCUSSION AND RECOMMENDATIONS**

In this study both *Family harmony* and *Perceived future continuity* is influenced by the *Incumbent generation* and *Inactive family members*. It is important that the younger generation feel that they will be able to realise their personal ambitions, career and psychosocial needs within the opportunities presented by the family business. That is likely to contribute to more harmonious relationships within the family business. Creating personal and family visions is the starting point for keeping the family and business systems in harmony and conflict can be avoided if everyone knows where the individual, family and business are heading. A shared dream also provides a foundation for continuity. A shared dream is not easy to create and involves an ongoing and open process between family members. Holding regular family meetings where family members, especially the younger generation and inactive family members, can express their goals and dreams for the family business is of vital importance.

Concerning *Inactive family members'* involvement in the family business, the results of this study indicate that the less that inactive family members are involved with or interfere in the family business, the more harmonious will relationships within the family be. Therefore, inactive family members should be excluded from the daily operating activities of the family

business as well as from important business decisions that have to be made. When active family members experience conflict amongst themselves, inactive family members should make an active attempt to stay out of the conflict situation and avoid playing family members off against one another. Provision should however be made by means of special family forums for these members to voice their opinions on the one hand and to be informed on the other hand about issues around the family business that may be of interest to them or influence them financially.

## **LIMITATIONS AND RECOMMENDATIONS FOR FUTURE RESEARCH**

Several limitations were encountered during the completion of this study. The sampling method, namely convenience snowball sampling, has several shortcomings, consequently the findings of this study cannot be generalised to the general family business population. Nevertheless, the findings of this study present insights into the factors contributing to family harmony and the continuity of family businesses. It is recommended that future studies make use of a more extensive database to facilitate the use of probability samples.

Another limitation to the study is that it focused only on four stakeholder groups of interest to family businesses. Future studies should examine a broader range of stakeholders such as suppliers, consumers and service providers. In addition, the external environmental factors influencing the perceived future continuity of family businesses should also be investigated.

The exploratory factors analysis revealed that some of the items measuring the involvement of the senior generation did not load as expected. It is suggested that future studies should revise these items to include more relevant and applicable items to the scale measuring the *Senior generation*.

Another possible limitation of this study is that of common methods bias. Common method bias occurs when the data are collected using self-report measures or the measurement of the independent and the dependent variables occurs simultaneously. Meade, Watson and Kroustalis (2007), however, posit that the use of common assessment methods hardly necessitates large and problematic common method bias. In many cases common method bias may be small and does

not necessarily jeopardise the validity of the results. It is, however, acknowledged that common method bias could have influenced the results of this study.

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**APPENDIX A**  
**DEPENDENT AND INTERVENING VARIABLES**

<b>PERCEIVED FUTURE CONTINUITY</b>	
<b>CONTIN4</b>	Continuing the business into the future will provide employment opportunities for future generations.
<b>CONTIN2</b>	I see our family business as a legacy to be handed over to future generations.
<b>CONTIN3</b>	I see our family business as a means to create wealth for future generations.
<b>CONTIN5</b>	Continuing the business into the future will give future generations the opportunity to be involved in the family business.
<b>FAMILY HARMONY</b>	
<b>HARMONY3</b>	Our family members support each other.
<b>HARMONY5</b>	Our family members appreciate each other.
<b>HARMONY4</b>	Our family members care about each others' wellbeing.
<b>HARMONY7</b>	Our family members encourage each other to put in their best efforts.
<b>HARMONY1</b>	Our family members are emotionally attached to one another.
<b>HARMONY2</b>	Our family members acknowledge each other's achievements.
<b>HARMONY6</b>	Our family members prefer to cooperate with each other rather than compete with one another.
<b>HARMONY8</b>	Our family members get along well both inside and outside the working environment.

**INDEPENDENT VARIABLES**

<b>NON-FAMILY MEMBERS</b>	
<b>NONFAM4</b>	In our family business we sometimes approach non-family members for advice on business matters.
<b>NONFAM5</b>	If necessary we draw on the expertise of non-family members to assist us with business matters.
<b>NONFAM3</b>	In our family business we involve non-family members when we have to make important strategic decisions about our business.

<b>NONFAM6</b>	In our family business non-family employees form part of the management team.
<b>NONFAM1</b>	In our family business we employ non-family members to supplement our skills.
<b>INACTIVE FAMILY MEMBERS</b>	
<b>INACTIVE1</b>	Family members not actively involved in the day-to-day operations or our family business DO NOT interfere in day-to-day business operations.
<b>INACTIVE2</b>	Family members not actively involved in the day-to-day operations of our family business DO NOT interfere in business decision-making.
<b>INACTIVE3</b>	Family members not actively involved in the day-to-day operations of our family business DO NOT become involved in disagreements between family members working in the business.
<b>INACTIVE4</b>	Family members not actively involved in the day-to-day operations of our family business DO NOT play active family members off against each other.
<b>INCUMBENT GENERATION</b>	
<b>INCUMG7</b>	I can realise my personal goals through my involvement in our family business.
<b>INCUMG 8</b>	My career needs and interests are closely aligned with opportunities within the family business.
<b>INCUMG4</b>	I can realise my ambitions through my involvement in our family business.
<b>INCUMG1</b>	I prefer to work in the family business even if I have other career options to choose from.
<b>INCUMG6</b>	I find my involvement in the family business fulfilling.
<b>SENIOR1</b>	The senior generation is willing to relinquish control of the family business.



**THE INFLUENCE OF ENTREPRENEURIAL AND MARKET  
ORIENTATION, TQM AND RESOURCES MANAGEMENT ON SALES  
GROWTH**

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KEY WORDS: Sales growth, organisational culture, total quality management

## **THE INFLUENCE OF ENTREPRENEURIAL AND MARKET ORIENTATION, TQM AND RESOURCES MANAGEMENT ON SALES GROWTH**

### **ABSTRACT**

Sales growth is a key indicator of whether a business is successful or not. There is a lack of empirical studies on the direct relationship between entrepreneurial orientation, market orientation, total quality management and the availability of resources, on the one hand, and sales growth, on the other hand. The study therefore investigates the influence of these variables on sales growth. The study involved a mail survey of 572 chief executive officers, product development and marketing directors and the use of structural equation modelling to analyse the data. The empirical revealed that sales growth was significantly influenced by a market-orientated organisational culture, but not by total quality management and an entrepreneurial organisational culture.

### **INTRODUCTION**

Sales growth is a key indicator of whether a business is successful or not (Kotler, 2003; Shaw & Merrick, 2005). All businesses are therefore continuously striving to increase their sales quantities and revenue. Sales growth has however been studied as a sub-element of organisational performance, which includes other sub-elements such as profitability (Schindler, 2003), return on investment (Burton & Haggett, 2007), productivity (Schonfield, 2007), market share (Shaw & Merrick, 2005; Galileo, 2007) and so forth. A direct focus on sales growth has been neglected.

Many variables have been proposed that would positively affect organisational performance with sales growth as a sub-element. These variables include among others product development strategies (DelVecchio, Zemanek, Mcntyre & Claxton, 2003; Lancaster & Reynolds, 2004), pricing strategies (Palmer, 2000; Shaw & Merrick, 2005), promotion strategies (Callaghan, 2003; Fitzgerald, 2007), distribution strategies (Danaher, Hardie, Putsis & William, 2001; Kotler, 2003) and customer relationship management (CRM) (Crosby & Johnson, 2005; Wu & Wu, 2005), entrepreneurial orientation (Hellriegel, Jackson & Slocum, 2004; Hill & Jones, 2004), market orientation (Kotler, 2003; Weber, 2008), total quality

management (TQM) (Bateman & Snell, 2007; Daft & Marcic, 2007) and the availability of resources (Goldsmith & Goldsmith, 2005; Bourne, 2007). The present study focuses on the latter four variables, as many more studies have been done on the other listed variables. The study therefore investigates the influence of entrepreneurial orientation, market orientation, total quality management and the availability of resources on sales growth.

## **PROBLEM STATEMENT**

The problem statement of the present study arises from the lack of empirical studies on the direct relationship between entrepreneurial orientation, market orientation, total quality management and the availability of resources, on the one hand, and sales growth, on the other hand. As already indicated above, the relationship between sales growth and the listed determinants is assumed due to the latter's relationships with organisational performance. The present study suggests that businesses would benefit if a rigorous empirical investigation could be conducted between these determinants and sales growth, as some uncertainties about these relationships could be clarified by such investigation.

For example, there is an uncertainty about whether TQM directly leads to sales growth. According to Hill and Jones (2004), the philosophy that underpins TQM, as architected by W. Edwards Deming, achieves the following: (1) quality actions lead to lower costs because of less reworking, fewer production mistakes, fewer delays and better use of time and materials, (2) productivity therefore improves, (3) higher market share is achieved because businesses can set higher prices, (4) profitability increases, and (5) more jobs are created. It is obvious that Hill and Jones (2004) assume that TQM increases sales growth in their reference to increased market share and profitability. In addition, Evans and Dean (2003) state that the main reason why managers pursue quality as part of a TQM programme is to satisfy customers. This assumes that satisfied customers would necessarily lead to more sales. These assumptions do not prove a direct relationship between TQM and sales growth and require therefore more empirical investigation. It is important to do so, as businesses are often regarded as successful or performing well even if their sales are decreasing. In addition, the present study questions whether there is a direct relationship between the use of TQM techniques, such as benchmarking, Six-Sigma, quality circles and so forth, and sales growth.

The present study puts forward the same argument with regard to the relationship between sales growth, entrepreneurial orientation, market orientation and resources management. It is assumed in previous studies that sales growth would be achieved if a business fosters an organisational culture that promotes entrepreneurship. According to Hellriegel *et al.* (2004), an entrepreneurial organisational culture is characterised by risk taking, dynamism and creativity. Actions around these characteristics could lead to mistakes which could negatively impact sales.

Entrepreneurial organisational cultures are also characterised by employees interacting and supporting each other; positive behaviours reinforced by positive rewards; organisation-wide information sharing; and incentive programmes to reward effort, and improving quality of production, management, performance and better service (Lawton, 2008). These characteristics harbour negative behaviours such as time wasting when interacting and sharing information, and unhealthy competition for rewards. There is therefore a need to investigate whether these entrepreneurial activities indeed lead to sales growth.

A market-orientated organisational culture is characterised by hard-driving competitiveness and profitability (Hellriegel *et al.*, 2004), as well as an intense pursuit of market-related and financial goals (Hill and Jones, 2004). The latter characteristics could manifest in unhealthy competition for customer patronage and the pursuit of market-related and financial goals at all costs. This could negatively impact sales, raising the question whether a market-orientated organisational culture has a direct positive influence on sales growth.

Kotler (2003) suggests that a business should have the necessary resources (labour, materials, machines, information and energy) in place to achieve business success. According to Kotler (2003), a successful business is one that achieves customer value and satisfaction, which in turn lead to high repeat purchases (in other words, more sales) and profitability. There is therefore an assumed link between resources management and sales growth. The present study questions whether this link is a direct one, because businesses often acquire or expand their resource base without achieving the concomitant sales growth.

The present study seeks to ascertain whether sales growth could be achieved with the direct manipulation of the antecedents discussed above. Findings that could emerge from this investigation would give managers more confidence in pursuing sales growth by focusing

efforts and financial investments on these variables. The present study pursues this objective by using a more rigorous statistical assessment of the relationship between the independent variables (entrepreneurial orientation, market orientation, total quality management and resources management) and the dependent variable (sales growth).

The present study analyses the hypothesised relationship with the multivariate statistical technique called structural equation modelling (SEM). Structural equation analysis or modelling (SEM) is a statistical data analysis technique that seeks to explain the relationships among multiple variables. It does this by examining the structure of interrelationships expressed in a series of multiple regression equations (Hair, Black, Babin, Anderson & Tatham, 2006)

Structural equation models are more advanced than ordinary regression models, as they incorporate multiple dependent and independent variables as well as the hypothetical latent constructs which are represented by clusters of observed variables. The model also provides a way to test the specified set of relationships among observed and latent variables as a whole and allows theory testing even when experiments are not possible (Cooper and Schindler, 2006; Savalei and Bentler, 2006).

Unlike other multivariate techniques, which are limited to representing only a single relationship between the dependent and independent variables, SEM can measure multiple and interrelated dependence relationships simultaneously, provide for the controlling of extraneous and confounding variables and account for measurement error in the estimation process (Cooper and Schindler, 2006). Among all the other statistical data analysis techniques used in social research, SEM satisfies the preconditions for causality the best and is therefore also regarded as a more comprehensive and rigorous approach to data analysis (Hoyle, 1995). SEM therefore comes the closest in explaining a direct causal relationship between variables in social research. This technique is used as the present study seeks to investigate the direct relationship between sales growth and the selected determinants.

## **LITERATURE REVIEW**

TQM has been recognised as a competitive advantage for any firm (Chinho and Shofang, 2006: 466). Han, Chen and Ebrahimpour (2007: 15-16) have revealed strong evidence that a

TQM practice such as ISO certification enhances organisational competitiveness, which in turn helps to improve business performance. Chinho and Shofang (2006: 472) also found support for the strong linkages between TQM and organisational performance, especially in the high-technology industry (Wang and Hsiao-Lan, 2005: 1168).

It was also reported that Six-Sigma, another TQM technique in the continuous improvement technique, has a positive effect on food quality and organisational performance (Chomka, 2003: 60). Gazit (2002: 38) is of the view that the application of Six-Sigma revolutionised the business of Ford Motor Co and resulted in better sustainable competitive advantage and customer satisfaction.

Many firms have also realised the importance of benchmarking which is also considered to be a TQM technique. Measuring themselves against various industries and global standards motivates firms to increase their performance to meet these standards. The spin-offs are often increased sales growth (APQC, 2007; Evans and Dean, 2003). Based on the preceding literature review, it is hypothesised that:

H1: There is a direct positive relationship between the use of TQM methods and the sales growth of businesses.

An entrepreneurial organisational culture is defined as a firm's inclination to risk-taking, dynamism and creativity (Hellriegel *et al.*, 2004; Kotler, 2003). Hill and Jones (2004: 337) believe that companies such as 3M, Hewlett Packard, IBM, Canon and Sony are successful because they have entrepreneurial cultures. According to Timmons (1999: 525), there is also evidence that superior teams which lead to growing organisations also operate more efficiently in an entrepreneurial environment.

A market organisational culture is defined as a firm's commitment to hard-driving competitiveness and profit orientation. A market culture is driven by quarterly and annual goals to deliver what the market wants and to increase market share. A market culture expects managers to regularly identify and translate market related goals into strategy to overcome competitors in the market and increase market share and profits (Weber, 2008; Kotler, 2003: 69). This requires a continuous scanning of the market for opportunities to achieve these objectives.

The preceding literature review on the relationship between entrepreneurial and market-orientated organisational cultures, on the one hand, and sales growth, on the other hand, points to the view that both these types of organisational cultures would increase growth, competitiveness and profitability of businesses, which assumes an increase in sales. It is therefore hypothesised that:

H2: There is a direct positive relationship between an entrepreneurial organisational culture and the sales growth of businesses.

H3: There is a direct positive relationship between a market-orientated organisational culture) and the sales growth of businesses.

The availability of resources, namely labour, information technology, machines and equipment, and energy (gas, wind and electricity, etc.) is also a key ingredient in the success of businesses. Kotler (2003) advises that the key to high-performance businesses is the owning (via acquisition or outsourcing) and nurturing of these core resources.

Sullivan (2007) and Kooser (2007) have discovered that proper hiring, training and retaining of staff can lead to sales gains. They further reported that businesses that invest in their employees and continuously add to their knowledge, deliver more sensitive, satisfying experiences to their customers. This could result in increased sales. The use of resources such as machinery and equipment plays a critical role in the production and delivery of goods and services to customers at the right time and place (Russell, 2006; Karpinski, 2004). Manufacturing is unthinkable without the machinery and technology used in inbound processing and outbound logistics of firms (Casper, 2007).

It has also been reported that the impact of greater convergence of engineering and information technologies of manufactures resulted in higher efficiency, better business continuity and improved disaster recovery ability (Min, West, Szer & Harrison, 2007; Robertson, 2007). Huang (2007) concurs that information technology as a resource in firms leads to favourable business results.

Another important resource for business success is electricity. The recent power outages in South Africa testify to this statement. If there is no electricity, goods perish and service delivery suffers. The management of electricity and all the above-mentioned resources are important for organisational performance including sales growth. It is therefore hypothesised that:

H4: There is a direct positive relationship between resources management and the sales growth of businesses.

## **RESEARCH OBJECTIVE**

The primary objective of the study is to investigate the influence of TQM, entrepreneurial organisational culture, market-orientated organisational culture and resources management on the sales growth of businesses.

## **METHODOLOGY OF THE STUDY**

### **The sample**

A sample of 770 multinational food, motorcar and high-technology manufacturing firms was selected from the database of a financial services firm in Israel. One of the researchers of the present study had access to this reliable and updated database, as he was employed at that financial services firm. The sample of firms was drawn based on the criteria of the minimum turnover being 40 million USD and the minimum number of staff employed being 250. In South African terms, these criteria would make the sample firms be called large firms. Questionnaires were mailed or e-mailed to the chief executive officers and/or product development directors/managers and/or marketing directors/managers of these manufacturing firms. A secured online version of the questionnaire was also made available to the target sample at <http://www.billonet.net/odayan>. Altogether 770 questionnaires were distributed in these ways, but only 572 usable questionnaires were returned, rendering a response rate of 74.3 %. Table 1 outlines the demographics of the respondents.

Table 1 shows that the sample comprised large multinational food (32.0%), motorcar (33.7%) and high-technology (34.3%) manufacturing firms, mostly located in the Middle East (56.3%)



and Europe (18.5%). Table 1 also shows that most of the respondents were males (72.2%), between the ages of 30 and 39 years (51.9%) and graduates (82.3%). The respondents were mostly product development/ product marketing managers (43.2%) and regional sales managers (27.1%) with job experience of between 3 and 8 years (65.6%).

Most of the respondents had job tenure ranging from less than three years to five years (77.1%), while the rest had job tenure of more than five years (22.9%). It appears that the respondents were reasonably suited to answer the questionnaire items, as most of them had high-level educational qualifications, occupied the requisite occupational position and had acquired the necessary job experience in the fields of product development and marketing.

**TABLE 1: RESPONDENT DEMOGRAPHIC COMPOSITION**

<b>DEMOGRAPHIC VARIABLE</b>		<b>FREQUENCY (n)</b>	<b>PERCENT (%)</b>
<b>Industry</b>	Motorcar	193	33.7%
	High-technology	196	34.3%
	Food	183	32.0%
	<b>TOTAL</b>	<b>572</b>	<b>100.0%</b>
<b>Gender</b>	Male	413	72.2%
	Female	159	27.8%
	<b>TOTAL</b>	<b>572</b>	<b>100.0%</b>
<b>Age</b>	20-29	120	21.0%
	30-39	297	51.9%
	40-49	137	24.0%
	50-59	18	3.1%
	60+	0	0.0%
	<b>TOTAL</b>	<b>572</b>	<b>100.0%</b>
<b>Educational qualification</b>	Matric	29	5.1%
	Diploma	72	12.6%
	First degree or equivalent	356	62.2%
	Second degree or equivalent	115	20.1%
	<b>TOTAL</b>	<b>572</b>	<b>100.0%</b>
<b>Geographic area</b>	Africa	29	5.1%
	Asia	38	6.7%
	Europe	106	18.5%
	Middle East	322	56.3%
	North America	39	6.8%
	South America	22	3.8%
	South East Asia and Oceania	16	2.8%
	<b>TOTAL</b>	<b>572</b>	<b>100.0%</b>
<b>Position</b>	President / CEO	29	5.0%
	Marketing director / sales director	77	13.5%
	Regional sales manager	155	27.1%
	Product development or product marketing manager	247	43.2%
	Marketing consultant	64	11.2%
	<b>TOTAL</b>	<b>572</b>	<b>100.0%</b>
<b>Experience in present</b>	Less than 3 years	93	16.3%

DEMOGRAPHIC VARIABLE		FREQUENCY (n)	PERCENT (%)
occupation	3 to 5 years	219	38.3%
	6 to 8 years	156	27.3%
	9 to 10 years	58	10.1%
	More than 10 years	46	8.0%
	TOTAL	<b>572</b>	<b>100.0%</b>
Working for a current employer	Less than 3 years	230	40.2%
	3 to 5 years	211	36.9%
	6 to 8 years	80	14.0%
	9 to 10 years	30	5.2%
	More than 10 years	21	3.7%
	TOTAL	<b>572</b>	<b>100.0%</b>

### The measuring instruments

A self-constructed scale based on literature and interviews with marketing managers who promote the TQM model in their firms was used to measure TQM effectiveness. The instrument consisted of eleven items and captured elements such as: Six-Sigma, benchmarking and other quality improvement techniques and general quality management philosophy. Responses were anchored to a five-point scale ranging from (1) *strongly disagree* to (5) *strongly agree*.

An instrument was constructed to measure the cultural orientation of business. The eight market culture items capture perceptions on achieving market and financial goals as well as competitiveness, while the nine entrepreneurial culture items measure perceptions on organisational characteristics such as risk taking, employees' interaction, flexibility, dynamism and creativity. The instrument was anchored to a five-point scale ranging from (1) *strongly disagree* to (5) *strongly agree*.

A seven-item instrument was constructed to measure the variable „resources management“. This instrument measured respondents' perceptions, for example, of the extent to which their firms invest in improving skills of employees, use the most appropriate equipment and possess or have available the necessary energy sources to achieve their business objectives. The instrument was anchored to a five-point scale ranging from (1) *strongly disagree* to (5) *strongly agree*.

The sales growth scale of Arnolds, Tait and Dayan, (2006) was adopted for the purpose of measuring sales growth. The Arnolds *et al.* (2006) instrument produced a Cronbach alpha of 0.870 and a high level of discriminate validity. The instrument statements were anchored by a five-point scale ranging from (1) *strongly disagree* to (5) *strongly agree*.

## THE EMPIRICAL RESULTS

### Reliability of the measuring instruments

The first step in the data analysis procedure was to assess the initial internal reliability of the measuring instruments by means of Cronbach alpha coefficients. The results, reported in Table 2, show that all the instruments returned alpha values of 0.50 and more, which are acceptable for exploratory research (Tharenou 1993; Pierce and Dunham 1987). For this exploratory phase of the study, these alpha values were deemed acceptable and the variables were retained for subsequent analyses.

**TABLE 2: INITIAL CRONBACH ALPHA VALUES OF MEASURING INSTRUMENTS**

MEASURING INSTRUMENT	ALPHA VALUE
Sales growth	0.71
Entrepreneurial organisational culture	0.84
Market-oriented organisational culture	0.75
Total Quality Management	0.65
Resources management	0.50

### Validity of the measuring instruments

The discriminant validity of the measuring instruments was assessed by conducting an exploratory factor analysis. The Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy and Bartlett's test of sphericity were however conducted first to ascertain whether a factor analysis could be conducted on the data. Both the KMO (ranging from 0.721 to 0.747) and Bartlett's tests ( $p < 0.001$ ) indicate that the data are factor analysable.

The exploratory factor analyses were conducted using the SPSS statistical software package (SPSS 15.0 for Windows, 2006). Principal Component Analysis was specified as the method

of factor extraction and Varimax rotation of the original factor matrix was used in all instances.

**TABLE 3: ROTATED FACTOR LOADINGS: ORGANISATIONAL VARIABLES<sup>1</sup>**

	FACTOR 1 ENTREPRENEURIAL CULTURE	FACTOR 2 TOTAL QUALITY MANAGEMENT	FACTOR 3 MARKET CULTURE
RESOU1	0.512		
RESOU5	0.480		
TQM1	0.516		
TQM4	0.451		
TQM5	0.431		
TQM7	0.424		
TQM8	0.414		
TQM9	0.554		
CULT2	0.565		
CULT6	0.400		
CULT7	0.490		
CULT9	0.498		
CULT10	0.401		
CULT15	0.550		
TQM2		0.477	
TQM6		0.572	
TQM11		0.693	
CULT5		0.407	
RESOU3		0.548	
RESOU7		0.570	
CULT3			0.407
CULT4			0.445
CULT13			0.543
CULT16			0.608
CULT17			0.549
RESOU6			0.424
EIGEN VALUES	5.105	1.710	1.660
CRONBACH ALPHA	0.79	0.65	0.52

1) Loadings greater than 0.4 were considered significant

In the first factor analysis, four factors, namely entrepreneurial organisation culture, market-orientated organisation culture, total quality management and resource management, were extracted. The empirical evidence (see Table 3) does not support the surmised four variables as suggested in the literature. Three distinctly separate organisational variables could be identified, namely entrepreneurial organisation culture, market-orientated organisation culture

and total quality management. The resource management variable did not emerge as a separate variable.

Table 3 shows that six entrepreneurial organisation culture, six TQM and two resource management items loaded on factor 1. It appears that all these items are related to an entrepreneurial organisational culture of dynamism, innovation, quality, skills development and up-to-date information. Factor 1 is therefore labelled entrepreneurial organisation culture, in short, entrepreneurial culture.

Factor 2 consists of three TQM, two resource management and one market culture items. All these items are related to the importance of quality management for the competitiveness of firms, as evident in the measurement items TQM2 (working with suppliers to improve quality), TQM6 (detailed plans for quality improvements), TQM11 (the use techniques such as quality circles, benchmarking, work cycle reduction and Six-Sigma), RESOU3 (using appropriate manufacturing equipment), RESOU7 (high quality information technology system) and MCULT5 (emphasis on competitiveness). Factor 2 is therefore labelled total quality management.

Five of the items expected to measure market-orientated organisation culture (in short, market culture) and one resource management item loaded on factor 3. It is clear that the respondents view all these items as measures of market culture as described by Hellriegel *et al.*, (2004). For the purposes of this study, the resource management item (RESOU6) is henceforth regarded as a measure of market culture, as the respondents viewed “having the necessary sources to deliver the products and services that our customers want” as a measure of market culture. Factor 3 is therefore labelled market culture.

In the second factors analysis, the dependent variables, namely sales growth and customer relations management (CRM) were considered. For the purposes of the present study, all analyses regarding CRM are omitted, as the present study focuses on sales growth only. In the factor analysis, one CRM item loaded on sales growth and is therefore regarded as a measure of sales growth. The factor analysis results show (see Table 4) that six items measuring sales growth loaded as expected. These six items plus the one CRM item are therefore regarded as the final measures of sales growth in this study.

**TABLE 4: ROTATED FACTOR LOADINGS: DEPENDENT VARIABLES <sup>1</sup>**

	FACTOR 1 SALES GROWTH
SGRO1	0.585
SGRO2	0.552
SGRO3	0.670
SGRO4	0.673
SGRO5	0.481
SGRO6	0.670
CRM3	0.460
EIGEN VALUES	2.974
CRONBACH ALPHA	0.70

---

1) Loadings greater than 0.4 were considered significant

Based on the discussion of Tables 3 and 4, the items shown in these tables are regarded as measures of the latent variables and retained in the theoretical models. Only these items were used in all subsequent statistical procedures. The Cronbach alpha values of these latent variables were re-calculated and they all exceeded the 0.50 cut-off point needed.

#### **Assessing the normal distribution of the data**

Before structural equation modelling could be conducted, the normal distribution of the data needed to be assessed. The normal distribution of the data was assessed by means of a test for (a) univariate and (b) multivariate normality. Both these tests revealed that the distribution of the data is not peaked. Thus, the conclusion was that the data did not demonstrate sufficient evidence of normality. It was also further concluded that the normal Maximum Likelihood technique could not be used and that the Robust Maximum Likelihood technique had to be used in all subsequent CFA and SEM analyses.

A Confirmatory Factor Analysis (CFA) was conducted by using the LISREL 8.80 statistical software package (Jöreskog and Sörbom, 2004). This analysis sought to establish further evidence of construct validity by confirming the empirical factor structure (see Tables 3 and 4) that emerged from the exploratory factor analyses. The goodness-of-fit indices of the CFA are shown in Table 5. The completely standardised solution for LAMBDA-X matrix was inspected, which indicated that the CFA results represent a permissible solution. The results

show that both the CFA and LAMBDA-X solutions provide further evidence of construct validity.

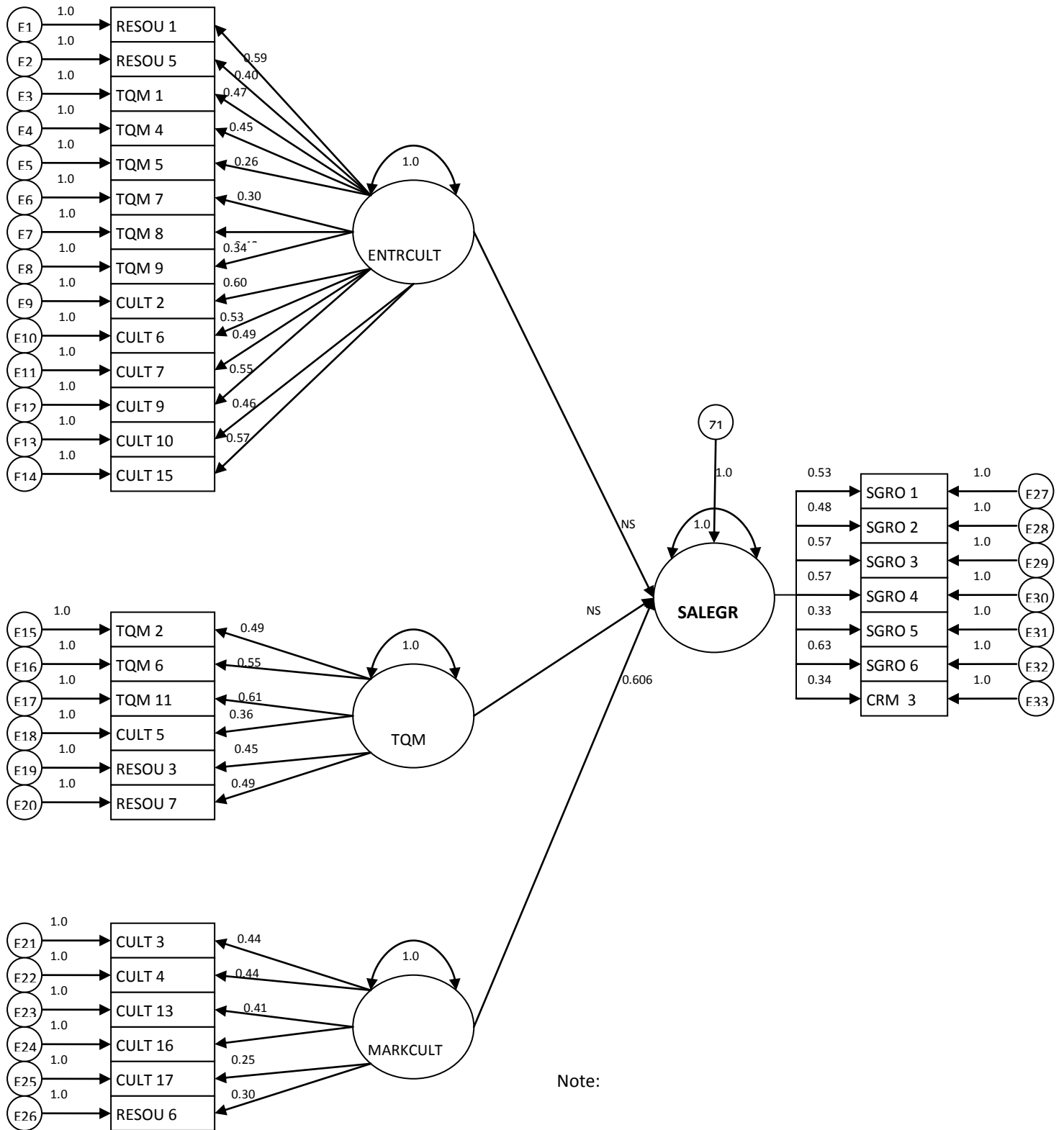
**TABLE 5: RESULTS OF THE CONFIRMATORY FACTOR ANALYSIS AS MEASURED BY THE GOODNESS-OF-FIT INDICES**

<b>SAMPLE SIZE EXCEEDANCE</b>	<b>SATORRA-BENTLER CHI-SQUARE</b>	<b>Df</b>	<b>PROBABILITY</b>
572	6988.987	1874	0.000
Root mean square error of approximation (RMSEA) = 0.069			

The indices of fit depicted in Table 5 indicate acceptable levels of fit (RMSEA = 0.069). According to MacCullum, Browne and Sugawara (1996), value of between zero (0) and 0.05 indicates a close fit, between 0.05 and 0.08 a reasonable fit, and above 0.08 a poor fit.

The modification indices were inspected and there was no reason to make adjustments to the measurement model. The next phase of the data-analysis, namely structural equation modelling (SEM), could then be conducted on the measurement model.

**FIGURE 1: THE INFLUENCE OF ORGANISATIONAL VARIABLES ON BUSINESS SUCCESS (AS MEASURED BY SALES GROWTH) - THE EMPIRICAL RESULTS**



Note:

1. Unless indicated otherwise, all the relationships are significant at the  $p < 0.01$  level of significance.



### The SEM results of the hypothesised relationships

The path model depicted in Figure 1 was constructed to investigate the relationship between the independent variables (TQM, entrepreneurial organisational culture, market-orientated organisational culture and resources management) and the dependent variable (sales growth). The path model was analysed by means of the LISREL 8.80 statistical software package (Jöreskog and Sörbom, 2004) and the results recorded in Figure 1.

Figure 1 shows that all the path coefficients are significant at the 0.01 level of significance. The empirical results indicate that market-orientated organisational culture is positively (0.606,  $p < 0.01$ ) related to sales growth. This means that hypothesis (H3) is supported. This also means that the more a market culture is promoted in these firms the more sales growth will be achieved.

Figure 1 shows that TQM and entrepreneurial culture are not significantly related to sales growth. This means that hypotheses H1 and H2 are not supported. This also means that the promotion of TQM and entrepreneurial culture in the selected industries would have no effect on their sales growth.

The indices of fit, which show the extent to which the path model represents an acceptable approximation of the data, are shown in Table 6. The RMSEA and GFI indices indicate acceptable levels of fit. The RMSEA (0.065) falls within the reasonable fit range of 0.05 to 0.08, while the GFI (0.80) is reasonably high in the range of zero (0) to one (1).

**TABLE 6: FIT INDICES OF THE PATH MODEL**

<b>SAMPLE SIZE EXCEEDANCE</b>	<b>SATORRA-BENTLER CHI-SQUARE</b>	<b>Df</b>	<b>PROBABILITY</b>
572	2409.750	693	0.000
Root mean square error of approximation (RMSEA) = 0.0659			
Goodness-of-fit index (GFI) = 0.805			

## DISCUSSION OF RESULTS AND MANAGERIAL IMPLICATIONS

The empirical results revealed that an entrepreneurial organisational culture does not have a significant influence on sales growth. This means that investing in improving the skills of employees; basing product and services decisions on the most up-to-date information; managers and employees working together and showing commitment to achieve clearly stated quality goals; ensuring high customer satisfaction with products and services; encouraging employees to expose and prevent rather than detect errors; empowering employees to expose problems and to contribute to solutions; fostering a culture of dynamism, creativity and flexibility; managers exhibiting a commitment to and rewarding of individual initiative, experimentation, new ideas and innovation; and cross-departmental (marketing, production, finance, etcetera) co-operation will not increase sales growth directly.

This result is inconsistent with the general sentiment (Hellriegel *et al.*, 2004; Kotler, 2003; Hill and Jones, 2004) that an entrepreneurial orientation leads to increased sales. The result seems to suggest that an entrepreneurial orientation is a hygiene factor, meaning it should be there to create the environment for sales to be pursued, but that such as orientation does not directly guarantee increased sales.

Instead, the empirical results suggest that a market cultural orientation is necessary to sales. The empirical results show that market culture exerts a significant influence (0.606,  $p < 0.01$ ) on the sales growth. A market culture orientation in the present study includes actions that are driven by market-related and financial goals (sales, profit, market share) monthly and quarterly departmental goals, rewarding of performance rather than social networks and having the resources (labour, electricity, petrol, information technology and so on) to deliver what the customers want. This finding is in line with previous studies (Weber, 2008; Kotler, 2003; Grant, 2007), which reported that a market cultural orientation leads businesses to excellent performance, increased sales and improved service to customers. It is therefore recommended that managers foster a market culture in their businesses by setting and driving market-related and financial goals, rewarding those who achieve these goals and ensuring that the necessary energy, technology and human resources are available to underpin the pursuit of these goals.

Finally, the empirical results show that TQM exerts no significant influence on sales growth. This means that working closely with suppliers; having a detailed quality improvement plan; applying techniques such as quality circles, benchmarking, Six-Sigma and work cycle reduction; emphasising competitiveness; using appropriate equipment; and using a quality information technology system do not influence sales growth directly. The empirical results seem to support the assertion of Evans and Dean (2003) that TQM would influence sales growth via customer relationship management. These authors suggest that managers pursue TQM strategies to research and design favourable product experiences for customers, which could eventually result in sales growth. In other words, the application of TQM techniques would influence sales growth via CRM. It is therefore recommended that managers continue to implement and improve TQM strategies to achieve CRM success, but investigate, plan and implement strategies to convert CRM into sales growth.

## **RECOMMENDATIONS FOR FUTURE RESEARCH**

The present study is subject to a few limitations which need to be explored further. Firstly, the sample was drawn from motorcar, food and high-technology manufacturing firms in the Middle East. The path model should be replicated in other parts of the world and in other industries such as retail and services in order to test the generalisability of the findings.

Secondly, resources management did not show sufficient discriminant validity and was deleted from the path model to increase sales growth. An improved resources management measuring instrument could however render a different finding.

Finally, an entrepreneurial-orientated organisational culture was shown not to significantly affect sales growth. This finding seems to be dissonant with an expectation that action such as ensuring customer satisfaction with products and services; fostering a culture of dynamism, creativity and flexibility; and encouraging cross-departmental co-operation, among others, would increase sales growth. An improved instrument to measure entrepreneurial culture might yield different results. Investigating the relationship between entrepreneurial organisational and sales growth for industries separately could also yield different results.

## CONCLUSION

This study has shown with rigorous statistical analyses that vigorously pursuing market-related and financial goals and rewarding the achievement thereof will directly increase the sales growth of businesses. Fostering TQM and an entrepreneurial orientation in businesses is important to create the environment in which to pursue sales growth. TQM and an entrepreneurial orientation should therefore provide the competitive edge needed for a business to drive towards sales growth.

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# **THE INFLUENCE OF ENTREPRENEURIAL ORIENTATION ON SMALL BUSINESS SUCCESS**

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## THE INFLUENCE OF ENTREPRENEURIAL ORIENTATION ON SMALL BUSINESS SUCCESS

### ABSTRACT

Given the high failure rate of small business in South Africa, a need exists to identify strategies that will improve their levels of performance. Evidence exists to suggest that the implementation of entrepreneurially orientated strategies will lead to business success. The primary objectives of this study are to establish the level of entrepreneurial orientation of small businesses in the Eastern Cape, and to establish the influence of this orientation on business success. Entrepreneurial orientation has been assessed in terms of five dimensions, namely pro-activeness, innovativeness, competitive aggressiveness, autonomy and risk-taking

A measuring instrument was distributed to respondents identified by means of a convenience sampling technique. The data collected from 162 usable questionnaires were subjected to various statistical analyses. An exploratory factor analysis was undertaken, and Cronbach-alpha coefficients were calculated to assess the discriminant validity and reliability of the measuring instrument respectively. Descriptive statistics were calculated to summarise the sample data and correlation coefficients to establish the relationships between the factors under investigation. The hypothesised relationships were assessed by means of multiple regression analysis.

The results of this study show that the dimensions of entrepreneurial orientation *Innovativeness* and *Competitive aggressiveness* have a significant positive influence on the success of the business, whereas the dimensions *Autonomy* and *Risk-taking* do not.

**Key words:** Small business, Entrepreneurship, Entrepreneurial orientation.

# THE INFLUENCE OF ENTREPRENEURIAL ORIENTATION ON SMALL BUSINESS SUCCESS

## INTRODUCTION AND BACKGROUND TO THE STUDY

In South Africa a “small business” is defined as a business which has a staff complement of less than 50 full-time employees, an annual turnover of less than R19 million, and total gross assets valued at less than R5 million (*National Small Business of 1996*). Small businesses account for nearly half of the country’s national output, and close to 60% of employed people work for small businesses (Abedian, Blottnitz, Coovadia, Davel, Masilela and Rees, 2008: 23). These businesses play an important role in stimulating economic growth, innovation and competitiveness, as well as in reducing unemployment and alleviating poverty (Abedian *et al.*, 2008: 23). Despite their importance, the small business failure rate is very high. Various reasons are cited for this high failure rate, amongst others, lack of finance, lack of knowledge, poor strategic management and poor cash flow management (Short, Payne, Brigham, Lumpkin and Broberg, 2009; Junehed and Davidsson, 1998; Sexton and Bowman-Upton, 1991). Abedian *et al.* (2008) also suggest that failure to anticipate or react to competition, new technology, or other changes in the marketplace are common reasons why small businesses fail. This failure to react to or anticipate change occurs when the business does not act entrepreneurially (Casillas, Moreno and Barbero, 2010).

Entrepreneurial orientation (EO) is becoming an important and extensively researched topic in the field of entrepreneurship (Melia, Boulard and Peinado, 2007: 67; Casillas *et al.*, 2010). According to Miller (1983), EO refers to a business that is geared towards innovation in the product-market field by carrying out risky initiatives, and which is the first to develop innovations in a proactive way in an attempt to defeat competitors. Similarly, Lumpkin and Dess (1996) describe entrepreneurial orientation as the processes, practices and decision-making styles of firms that act entrepreneurially. More specifically, an entrepreneurial firm is defined as one that exhibits five entrepreneurial behaviours, namely autonomy, competitive aggressiveness, innovativeness, pro-activeness and risk-taking (Lumpkin and Dess, 1996; Short *et al.*, 2009). Furthermore, Turker and Selcuk (2009) assert that firms that undertake entrepreneurially orientated activities are not only incubators for technological innovation, but also provide employment opportunities and increase competitiveness.

In recent times there has been an increase in research devoted to the field of entrepreneurship and a growing interest in the EO of small businesses, particularly in developing countries (Melia *et al.*, 2007: 67). However, conflicting views exist with regard to the relationship between EO and success. Empirical evidence supporting the view that EO has a positive influence on business performance has started to mount (Brown, 1996; Junehed and Davidsson, 1998), and various authors (Wiklund, 1998; Zahra and Covin, 1995) have reported a positive relationship between EO and performance. However, according to Covin and Slevin (1989) and Sexton and Bowman-Upton (1991), a lack of systematic empirical evidence exists to prove that EO actually leads to improved firm performance. Furthermore, Hart (1992) even suggests possible negative consequences of EO, and hypothesises that entrepreneurial strategy-making is likely to lead to lower rather than higher performance because of role imbalances between top management and lower-level workers.

Oswald (2008) contends that a limited understanding exists of why entrepreneurial activities vary from business to business. Casillas *et al.* (2010) are of the opinion that the EO literature needs to produce more knowledge of the conditions under which EO as a whole is related to business performance, as well as how the dimensions of EO influence performance separately. This study attempts to address this need.

## **PROBLEM STATEMENT AND RESEARCH OBJECTIVES**

Given the high failure rate of small business in South Africa, the need to identify strategies to improve their success is clearly evident. According to Lotz and Van der Merwe (2010: 131), EO is an important path to competitive advantage and improved performance for all types of businesses. Several studies have also shown a positive relationship between the implementation of entrepreneurially orientated strategies and business performance (Wiklund, 1998; Zahra and Covin, 1995). This implies that the more small businesses implement entrepreneurially orientated strategies and behave in an entrepreneurially orientated manner, the more successful they are likely to be. Very few small businesses do, however, undertake entrepreneurially orientated activities (Fairoz, Hiobumi and Tanaka, 2010: 134-140).

In light of the above discussion, the purpose of this study is to investigate the relationship between the EO of small businesses in the Eastern Cape and their level of business success. EO will be assessed in terms of the five dimensions, namely pro-activeness, innovativeness,

competitive aggressiveness, autonomy and risk-taking, while business success will be assessed in terms of profitability, growth and goal achievement. The primary objectives of this study are to establish the level of EO of small businesses in the Eastern Cape and to establish the influence of this orientation on business success.

## **ENTREPRENEURIAL ORIENTATION AND BUSINESS SUCCESS**

Although a large amount of entrepreneurship research has focused at the individual level of analysis, researchers have recently begun to focus on entrepreneurship at the firm level of behaviour (Dess and Lumpkin, 2005: 147-156). Much of this research has been based on Miller's work (1983). Miller suggests that a firm's degree of entrepreneurship can be seen as the extent to which the firms innovates, take risks and acts proactively. Miller (1983) has developed a scale to empirically measure these dimensions. Miller proposed that businesses which only imitate competitors' products or services should not be considered as risk-takers. Furthermore, he stated that entrepreneurial organisations that are proactive in their strategic orientation quickly claim the status of first-mover advantage, meaning that they may create new markets through innovations. Covin and Slevin (1989) have subsequently extended and refined Miller's instrument to an easily administered five-item questionnaire, but which retains the key elements and ideas originally conceived by Miller (1983). Wiklund (1998) has identified no fewer than twelve studies based on the instruments of Miller, Covin and Slevin. These studies suggest that using five factors, namely innovation, pro-activeness, risk-taking, competitive aggressiveness and autonomy, to measure EO, is a viable instrument for capturing firm-level entrepreneurship.

More specifically, Miller (1983) described businesses that are entrepreneurially orientated as being geared towards innovation in their field by carrying out risky initiatives, and are the first to develop proactive innovations in dealing with their competitors. Lumpkin and Dess (1996), on the other hand, have described entrepreneurial orientation as the processes, practices and decision-making styles of firms that act entrepreneurially.

As mentioned above, Lumpkin and Dess (1996) define EO as shown by a firm that exhibits five entrepreneurial behaviours, namely innovativeness, pro-activeness, risk-taking, competitive aggressiveness and autonomy. Innovativeness is concerned with supporting and encouraging new ideas, as well as experimentation and creativity, which are likely to result in

new products, services or processes (Miller, 1983; Covin and Slevin, 1989; Lumpkin and Dess, 1996). Pro-activeness is concerned with “first-mover” and other actions aimed at seeking to secure and protect market share, as well as with a forward-looking perspective reflected in actions taken in anticipation of future demand (Miller 1983; Covin and Slevin, 1989; Lumpkin and Dess, 1996). A pro-active approach implies taking the initiative in an attempt to shape the environment to gain a competitive advantage, and to anticipate competitors’ movements and market needs (Lumpkin and Dess, 1996). A risk-taking propensity denotes the willingness to make investments in projects that have uncertain outcomes (Lumpkin and Dess, 1996).

According to Stam and Elfering (2008: 3), EO emphasises the process of entrepreneurship rather than the individuals behind it, and highlights some important implications. First, these pro-active, innovative and risk-taking actions taken by a business may be affected by any number of individuals inside or outside the firm. Second, they emphasise that actions taken by the firm puts entrepreneurship into a management framework. By doing so, inferences of entrepreneurship can be sought in a much wider field than that directly related to the individual.

Several studies (Lotz and Van der Merwe, 2010; Short *et al.*, 2009; Gurbuz and Aykol, 2009) have investigated the relationship between EO and *Business success*. Lotz and Van der Merwe (2010: 131) report a positive relationship between EO and business performance, and conclude that EO plays an important part in the improved performance of a business. The thrust of the argument for the positive influence of EO on business performance is related to the first-mover advantages, and the tendency to take advantage of emerging opportunities implied by EO (Fairoz *et al.*, 2010: 138). According to Zahra and Covin (1995), businesses with a high level of EO can target niche market segments and set the trend in the market ahead of their competitors. These businesses monitor market changes and respond quickly to take advantage of emerging opportunities. Innovation keeps them ahead of their competitors, and through gaining a competitive advantage, financial results improve. Pro-activeness gives firms the ability to present new products/services to the market ahead of competitors, which also gives them a competitive advantage (Gurbuz and Aykol, 2009: 321-336). Tsai, MacMillan and Low (1991) suggest that the effect of EO on performance is long-term, rather than short-term in nature. Pro-active firms can introduce new goods and services ahead of their competitors. As first-movers they can control access to the market by dominating

distribution channels. Furthermore, by introducing their products or services ahead of competitors, businesses can, if successful, establish industry standards. These actions should help first-movers to acquire sustained rather than temporary high performances (Zahra and Covin, 1995).

Most studies (Miller, 1983; Covin and Slevin, 1989; Lumpkin and Dess, 1996) investigating EO, use either a dimension thereof or an overall measure of EO to show a relationship between EO and business performance. The majority of these studies focus on the relationship between EO and overall business performance, whereas few studies focus on the individual dimension of EO in relation to individual business performance variables. Empirical evidence exists supporting a positive relationship between entrepreneurial activities in firms and financial performance (Morris and Sexton, 1996: 8), and this relationship appears to continuously strengthen over time (Zahra, 1995: 242). To cope with business challenges, organisations are increasingly turning to entrepreneurship as a means of innovation, growth and strategic renewal (Bhardwaj, Agrawal and Momaya, 2007: 131). Continuous innovation and an ability to compete effectively in international markets are among the skills that are expected to increasingly influence performance in the twenty-first century's global economy (Kuratko and Welsch, 2001: 347).

There is reason to believe that the relationship between EO and business performance may be particularly strong among small businesses. It is suggested that smallness fosters flexibility and innovation, though it limits competitiveness in other strategic dimensions (Stam and Elfering 2008). Resource constraints may, however, prevent small businesses from pursuing cost leadership or differentiation strategies (Porter, 1999).

According to Acs, Glaeser, Litan and Fleming (2008: 11-12), consensus does not exist on appropriate measures for small businesses performance (success). Prior research has mainly focused on variables for which information is easy to gather (Cooper, 1995). Several researchers advocate growth as the most important performance measure for small businesses (Brown, 1996; Chandler and Hanks, 1993; Fombrun and Wally, 1989; Tsai, MacMillan and Low, 1991). It is also argued that growth is a more accurate and a more easily accessible performance indicator than accounting measures, and is hence superior to indicators of financial performance. D'Souza and McDougal (1989) believe that sales growth is the best measure of growth. Sales growth reflects both short- and long-term changes in the firm and is

easily obtainable. These authors, as well as Barkham, Gudgin, Hart and Hanvey (1996), maintain that entrepreneurs consider sales growth to be the most common performance indicator.

An alternative view considers performance as being multidimensional in nature, and suggests that it is advantageous to integrate different dimensions of performance in empirical studies (Cameron, 1978; Lumpkin and Dess, 1996). It is possible to regard financial performance and growth performance as different aspects of performance as each will reveal important information (Zahra, 2001). Therefore, it can be inferred that taken together, growth and financial performance give a richer description of the actual performance of the firm than each does separately. For the purpose of this study, business success will be measured in terms of both growth and financial indicators.

The literature study has revealed that EO has five dimensions. In this study these five dimensions are used to determine how entrepreneurially orientated small businesses are. The five dimensions of entrepreneurial orientation influencing business success are summarised in Table 1.

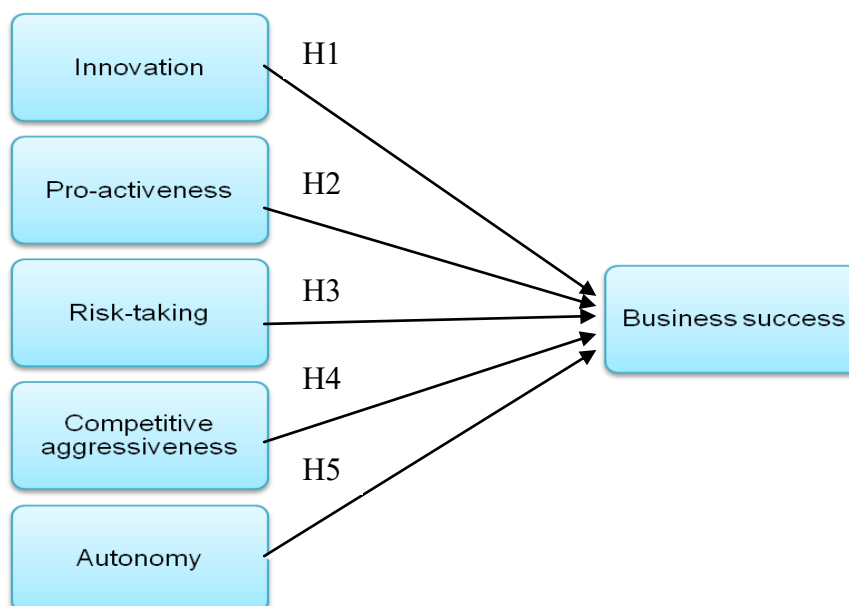
**TABLE 1**  
**DIMENSIONS OF ENTREPRENEURIAL ORIENTATION**

<b>EO dimension</b>	<b>References</b>
<i>Innovativeness</i>	Lotz and Van der Merwe, 2010; Stam and Elfring, 2008; Quince and Whitaker, 2003; Lumpkin and Dess, 1996.
<i>Pro-activeness</i>	Lotz and Van der Merwe, 2010; Stam and Elfring, 2008; Quince and Whitaker, 2003; Lumpkin and Dess, 1996.
<i>Risk-taking</i>	Short <i>et al.</i> , 2009; Stam and Elfering, 2008; Baker and Sinkula, 2004.
<i>Competitive aggressiveness</i>	Lotz and Van der Merwe, 2010; Stam and Elfring, 2008; Quince and Whitaker, 2003; Lumpkin and Dess, 1996.
<i>Autonomy</i>	Lotz and Van der Merwe, 2010; Lumpkin and Dess, 1996.

Based on the dimensions of EO in Table 1, the following theoretical framework is proposed and depicted in Figure 1.



**FIGURE 1**  
**THEORETICAL FRAMEWORK**



For the purpose of this study the five dimensions of EO, namely *Innovativeness*, *Pro-activeness*, *Risk-taking*, *Competitive aggressiveness* and *Autonomy* serve as the independent variables, while *Business success* serves as the dependent variable. In this study, business success will be assessed in terms of profitability, growth and goal achievement. The following directional hypotheses have been formulated to test the relationships proposed in the theoretical framework:

- $H^1$ : There is a positive relationship between the level of *Innovation* and *Business success*.
- $H^2$ : There is a positive relationship between the level of *Pro-activeness* and *Business success*.
- $H^3$ : There is a positive relationship between the level of *Risk-taking* and *Business success*.
- $H^4$ : There is a positive relationship between the level of *Competitive aggressiveness* and *Business success*.
- $H^5$ : There is a positive relationship between the level of *Autonomy* and *Business success*.

## RESEARCH METHODOLOGY

### Development of the measuring instrument

A survey was used to collect the raw data on the dimensions of entrepreneurial orientation and business success. A measuring instrument was developed for this purpose. The

independent and dependent variables investigated in this study were operationalised using reliable and valid items sourced from previous empirical studies (see Table 2).

**TABLE 2**  
**SOURCES OF ITEMS USED IN THE MEASURING INSTRUMENT**

<b>EO dimensions</b>	<b>Items</b>	<b>Source of items</b>
<i>Innovation</i>	8	Lotz and Van der Merwe, 2010; Stam and Elfring, 2008; Quince and Whitaker, 2003; Lumpkin and Dess, 1996.
<i>Pro-activeness</i>	7	Lotz and Van der Merwe, 2010; Stam and Elfring, 2008; Quince and Whitaker, 2003; Lumpkin and Dess, 1996.
<i>Risk-taking</i>	7	Short <i>et al.</i> , 2009; Stam and Elfering, 2008; Baker and Sinkula, 2004.
<i>Competitive aggressiveness</i>	7	Lotz and Van der Merwe, 2010; Stam and Elfring, 2008; Quince and Whitaker, 2003; Lumpkin and Dess, 1996.
<i>Autonomy</i>	9	Lotz and Van der Merwe, 2010; Lumpkin and Dess, 1996.

Where necessary, the items were rephrased to make them more suitable for the present study. The measuring instrument consisted of three sections. Sections A and B contained questions aimed at obtaining demographic information about the respondents, such as age, gender, number of years of employment and education level, as well as information about the small business. Section C contained 46 randomly sequenced statements assessing the five dimensions of entrepreneurial orientation and business success. Using a five-point Likert-type interval scale, ranging from *Strongly disagree* (1) to *Strongly agree* (5), respondents were requested to indicate the extent of their agreement with each statement.

### **Sampling and data collection**

The population for this study consisted of small businesses in the Eastern Cape. To date, no national database or list of small businesses in South Africa or the Eastern Cape have been compiled. As a result, a convenience sampling technique was employed. Questionnaires were distributed by field workers and collected upon completion. Each questionnaire was accompanied by a covering letter, and respondents were guaranteed that their response would be treated with confidentiality. The survey yielded 162 usable questionnaires.

## **Statistical analyses**

The data collected from the 162 usable questionnaires were subjected to various statistical analyses using STATISTICA (Statsoft, 2008). An exploratory factor analysis was undertaken and Cronbach-alpha coefficients were calculated to assess the discriminant validity and reliability of the measuring instrument respectively. Descriptive statistics were calculated to summarise the sample data and correlation coefficients, to establish the relationships between the factors under investigation. The hypothesised relationships were assessed by means of multiple regression analysis.

## **Sample description**

The respondents participating in this study operated their businesses inside the borders of the Eastern Cape Province. Of the 162 respondents who participated in the study, 75% were males and 25% were females. In terms of age, the majority of respondents fell between the ages 40 and 49 (36%), and between 50 and 59 (25%), thereby making up 61% of the respondents. 20% of the respondents were found to be between the ages of 30 and 39, and 11% between the ages of 20 and 29. Most respondents (62%) indicated that they had a post-matric qualification. With regard to their ethnic background, just over half (54%) were white, 25% black, 10% coloured and 9% Indian. Only 2% of the respondents declined to disclose their ethnicity.

More than half (54%) of the small businesses were family-owned businesses, while 46% were non-family owned. Most of the small businesses (49%) could be classified into the service industry, 34% were in retail/wholesale and 7% were in the manufacturing industry. All had a workforce of between 5 and 50 employees, thereby meeting the study's definition of a small business. The majority of small businesses (73%) employed between 5 and 15 workers, and the average number of employees stood at 13. The majority (54%) of the businesses had been in operation for more than 10 years, with 31% indicating less than 5 years. The average number of their years of operation was 15 years.

## **Discriminant validity and reliability results**

An exploratory factor analysis was conducted to identify the unique factors present in the data, and to assess the discriminant validity of the measuring instrument. In identifying the factors to extract for the model, the percentage of variance explained and the individual factor loadings were considered.

Six factors were extracted, which explained 54 % of the variance in the data. Items with factor loadings of  $\geq 0.4$  (Hair, Black, Babin, Anderson and Tatham, 2006) and those only loading onto a single factor were considered significant. Two items (INNOV1, RISK18) did not load onto any factor, and four items (INNOV2, INNOV7, RISK7, SUCC8) loaded onto more than one factor. These items were eliminated from further statistical analysis. The factors extracted could be identified as the theoretical dimensions of *Business success*, *Innovativeness*, *Autonomy*, *Risk-taking* and *Competitive aggressiveness*. Although the sixth factor extracted from the factor analysis had three items that loaded onto it, two of these items cross-loaded onto other factors and were thus excluded from the analysis. Given that factor 6 had only one remaining item, it was decided to eliminate this construct from further analysis. Hypothesis  $H^2$  was thus eliminated from further investigation. The remaining factors all reported factor loadings of  $\geq 0.4$ , providing evidence of construct and discriminant validity for these measuring scales (Field, 2009; Hair *et al.*, 2006).

Four of the items (INNOV3, 5INNOV, INNOV3, 6 INNOV and INNOV8) originally intended to measure *Innovativeness* loaded as expected. In addition five items originally intended to measure *Pro-activeness* (PRO1, PRO2, PRO3, PRO4 and PRO5) also loaded onto the factor *Innovativeness*. The name *Innovativeness* was retained for this factor. None of the items measuring *Pro-activeness* loaded together as expected. Seven (AUTO1, AUTO2, AUTO2, AUTO5, AUTO6, AUTO7 and AUTO8) of the items intended to measure *Autonomy* loaded as expected. In addition, one of the items (RISK8) measuring *Risk-taking* also loaded onto this factor. Three of the items originally intended to measure *Risk-taking*, together with one item measuring *Pro-activeness*, loaded onto one factor. The name *Risk-taking* was retained for this factor. All of the items measuring *Competitive aggressiveness* loaded onto one factor as expected. Three additional items also loaded onto *Competitive aggressiveness* (INNOV4, PRO7 and RISK4). Seven (SUCC1, SUCC2, SUCC3, SUCC4, SUCC5, SUCC6, SUCC7 and SUCC8) of the eight items intended to measure *Business success* loaded as expected. The items measuring the four independent variables and the dependent variable are tabled in Appendix 1.

Cronbach-alpha coefficients (CA) were calculated to assess the reliability of the scales measuring the factors under investigation (see Table 3).

**TABLE 3**  
**OPERATIONAL DEFINITIONS AND VALIDITY AND RELIABILITY RESULTS**

Operationalisation of factors	Items	Factor loadings	CA
<i>Innovativeness</i> refers to emphasising technological leadership, innovation and continuous improvement; regularly making changes to and introducing new processes, products and services; encouraging creativity and experimentation; and continually pursuing new opportunities.	9	Max: 0.796 Min: 0.594	.900
<i>Risk-taking</i> refers to being first among competitors to introduce new products and/or technologies; having a preference for and a willingness to commit to high-risk projects; and considering risk-taking a positive attribute.	4	Max: 0.728 Min: 0.420	.682
<i>Competitive aggressiveness</i> refers to being aggressive and intensely competitive; offensive in overcoming threats posed by competitors and initiating actions to which competitors respond; striving for first-mover advantage and being bold when facing uncertain situations.	10	Max: 0.696 Min: 0.458	.861
<i>Autonomy</i> refers to allowing employees to work independently and without continual supervision; to make decisions; and to be flexible and creative in finding solutions.	8	Max: 0.713 Min: 0.429	.781
<i>Business success</i> refers to experiencing growth in profits and turnover, being profitable and financially secure, and achieving financial and growth goals.	7	Max: 0.779 Min: 0.677	.869

According to Nunnally and Bernstein (1994), CAs of less than 0.50 are deemed unacceptable, those between 0.50 and 0.69 are regarded as adequate, and those above 0.70 are acceptable. CAs of greater than 0.70 were returned for all constructs except *Risk-taking*, which returned a CA of 0.682. This suggested that the scales measuring *Innovativeness*, *Autonomy*, *Competitive aggressiveness* and *Business success*, were acceptably reliable, while the scale measuring *Risk-taking* was adequately reliable (see Table 3). Table 3 summarises the operational definitions of the factors as well as details concerning the validity and reliability of the measuring instrument.

### **Descriptive statistics and correlation coefficients**

The mean scores for the dimensions of entrepreneurial orientation investigated in this study are reported in Table 4. *Innovativeness* reported a mean score of 4.148, with 93% of respondents agreeing (both slightly and strongly) that their small business undertook innovative activities. *Autonomy* reported a mean score of 3.811, with 85% of respondents slightly or strongly agreeing that employees in their small business were given autonomy in carrying out their daily working activities. *Competitive aggressiveness* reported a mean score

of 3.940, with 91% of respondents slightly or strongly agreeing that their small business undertook aggressive activities in dealing with competition. The results seem to suggest that innovative, autonomous and competitive aggressive activities were being undertaken by most of the small businesses participating in this study. However, a mean score of 3.099 was reported for Risk-taking. Only 42% of respondents slightly agreed that risk-taking activities were undertaken in their small business, whereas 33% reported a neutral response.

With regard to the dependent variable *Business success*, a mean score of 4.029 was reported. Most respondents (52%) strongly agreed that their small business was successful, and 33% slightly agreed.

In addition to the descriptive results, the correlation coefficients indicating the relationships between the factors under investigation are also reported in Table 4. All the factors were positively and significantly ( $p < 0.05$ ) correlated with one another. The extent to which the independent variables had a significant influence on the dependent variable was established by mean of multiple regression analysis.

**TABLE 4**  
**DESCRIPTIVE STATISTICS AND CORRELATIONS BETWEEN FACTORS**

<b>Factor</b>	<b><i>M</i></b>	<b><i>SD</i></b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1 <i>Innovativeness</i>	4.148	0.724	1.000	-	-	-	-
2 <i>Autonomy</i>	3.811	0.696	0.375	1.000	-	-	-
3 <i>Competitive aggressiveness</i>	3.940	0.664	0.631	0.325	1.000	-	-
4 <i>Risk-taking</i>	3.099	0.872	0.452	0.365	0.489	1.000	-
5 <i>Business success</i>	4.029	0.712	0.336	0.154	0.330	0.166	1.000

### **Multiple regression analysis**

Multiple linear regression analysis is a tool for predicting a dependent variable based on several independent or explanatory variables (Cooper and Schindler, 2007; Hair, Anderson, Tatham and Black, 1998) and as such, allows for the simultaneous investigation of the effect of two or more independent variables on a single dependent variable. Multiple linear regression analysis was performed to see whether the dimensions of entrepreneurial

orientation, namely *Innovativeness*, *Pro-activeness Risk-taking*, *Competitive aggressiveness* and *Autonomy* investigated in this study exerted a significant influence on the dependent variable *Business success*.

The results of the multiple regression analysis show that the four independent variables explained only 13.37% of the variance in *Business success*. As can be seen in Table 5, a significant positive relationship was found between the independent variables, namely *Innovativeness* (2.1702;  $p < 0.05$ ) and *Competitive aggressiveness* (2.0643;  $p < 0.001$ ) and the dependent variable *Business success*. No relationship was, however, reported between *Autonomy* and *Risk-taking* and the dependent variable *Business success*. Based on these results, support is found for hypotheses  $H^1$  and  $H^4$ , but not for  $H^3$  and  $H^5$ . Hypothesis  $H^2$  was not subjected to empirical testing because of insufficient evidence of validity.

**TABLE 5**  
**INDEPENDENT VARIABLES AND BUSINESS SUCCESS**

Dependent variable: Business success		R-Square = .1373	
Independent variables	Beta	t-value	Sig.(p)
(Intercept)	2.2965	5.9507	0.0000
<i>Innovativeness</i>	0.2125	2.1702	0.0315*
<i>Autonomy</i>	0.0213	0.2528	0.8008
<i>Competitive aggressiveness</i>	0.2215	2.0643	0.0406*
<i>Risk-taking</i>	-0.0331	-0.4554	0.6494

(\* $p < 0.05$ )

## DISCUSSION OF SIGNIFICANT FINDINGS

The primary objectives of this study were to establish the level of entrepreneurial orientation of small businesses in the Eastern Cape in terms of five dimensions, and to establish the influence of this orientation on business success. An exploratory factor analysis was undertaken to assess the validity of the measuring instrument and Cronbach-alpha coefficients calculated to establish the reliability of the measuring scales. The dimension of entrepreneurial orientation, namely *Pro-activeness*, did not report sufficient evidence of validity and was thus excluded from further analysis. Entrepreneurial orientation was thus

assessed in terms of *Innovativeness*, *Competitive aggressiveness*, *Autonomy* and *Risk-taking*. The aforementioned dimensions of entrepreneurial orientation (independent variables), as well as the dependent variable *Business success* reported satisfactory evidence of validity and reliability.

The results of this study suggest that most of the small businesses participating in this study were entrepreneurially orientated in that innovative and competitive aggressive activities were being undertaken in their operating efforts. Most emphasised technological leadership, innovation and continuous improvement, regularly making changes to and introducing new processes, products and services, encouraging creativity and experimentation, and continually pursuing new opportunities. Furthermore, most were aggressive and intensely competitive, offensive in overcoming threats posed by competitors and initiating actions to which competitors responded, striving for first-mover advantage, and were bold when facing uncertain situations. In addition, most allowed their employees to function under autonomous conditions. As such, they allowed their employees to work independently and without continual supervision, allowed them to make decisions, and were flexible and creative in finding solutions.

However, only a small percentage agreed that they undertook risk-taking activities such as being the first among competitors to introduce new products and/or technologies, or had a preference for and a willingness to commit to high-risk projects. A possible explanation for the low mean score reported for *Risk-taking* could be that 70% of the businesses had been operating for more than five years (average of 15 years). Whether risk-taking activities are related to the age of the business is, however, not known, and further investigation is necessary in this regard.

The results of the multiple regression analysis showed that the independent variables *Innovativeness* and *Competitive aggressiveness* had a significant positive influence on the dependent variable *Business success*. This implies that the more the business undertook innovative and competitive aggressive activities, the more likely it was to experience success. No relationship was, however, reported between *Autonomy* and *Risk-taking* and the dependent variable *Business success*. Whether employees were given autonomy to carry out their jobs or not did not influence the success of the business. Similarly, whether the business undertook and encouraged risky activities or not had no influence on the success of the business.



## IMPLICATIONS OF SIGNIFICANT FINDINGS

This study has implications for both researchers and small business owners. Four of the items measuring *Innovativeness*, together with five of the items measuring *Pro-activeness* loaded together onto one factor. The respondents in this study thus perceived these nine items as measuring the same construct. Despite using items found valid and reliable in previous instruments, none of the items intending to measure *Pro-activeness* loaded together onto a separate factor. Given the similarity of the items measuring these two constructs, it comes as no surprise that the respondents in this study perceived them as measuring the same construct. The challenge for researchers is to establish whether *Innovativeness* and *Pro-activeness* are distinguishable constructs, and if so, to develop valid and reliable scales that measure these constructs.

The results of this study show that the independent variables *Innovativeness* and *Competitive aggressiveness* have a significant positive influence on the dependent variable *Business success*. If small businesses are to be successful they need to be innovative in terms of their process, products and services. Being innovative requires placing a strong emphasis on technological leadership, encouraging experimentation and creativity, and regularly introducing new lines of products and/or services.

Business success also requires that small businesses be competitive and aggressive in their interactions with competitors. In order to do this, small business owners should strive to do things before their competitors do, and initiate activities to which their competitors react. In addition, small business owners should continually be on the offensive to overcome threats posed by their competitors, as well as developing strategies that defend their market position.

The multiple regression analysis undertaken in this study revealed that the four dimensions of entrepreneurial orientation investigated in this study explained only a very small percentage of the variance in *Business success*. This implies that if strategies are to be sought to improve the chances of small business success, researchers and small business owners need to seek solutions not only by implementing entrepreneurial activities, but also by seeking solutions in other areas.

## LIMITATIONS AND FUTURE RESEARCH

There were several limitations to this study. Firstly, individual responses were based on perceptions and on one-time self-report measures. Common method bias can potentially occur under these circumstances. However, the use of self-reporting does not necessarily lead to the problem of common method bias, and in many cases the bias may be so small that it does not jeopardise the validity of the results (Meade, Watson and Kroustalis, 2007). The authors, however, acknowledge that common method bias could have influenced the results of this study.

Secondly, the use of convenience sampling introduced a source of potential bias into the study. The findings can thus not be generalised to the entire small business population. Furthermore, this study is limited to small businesses in the Eastern Cape, and generalising the results to all South African small business may not be appropriate. Future studies should attempt to identify a database from which probability samples can be drawn, and include small businesses throughout South Africa.

This study investigated the entrepreneurial orientation of small businesses by applying the model of Lumpkin and Dess (1996). The level of innovativeness, pro-activeness, risk-taking, competitive aggressiveness and autonomy exhibited by small businesses in their business activities was investigated. Existing items found valid and reliable in previous studies were used for this purpose. However, the items used to measure *Pro-activeness* were not perceived by respondents as distinguishable from those measuring *Innovativeness*. As such, this dimension of entrepreneurial orientation could not be subjected to further testing. In future studies researchers should develop a scale measuring *Pro-activeness* so that the inherent meaning of this construct is clearly distinguishable from that of *Innovativeness*.

Despite several limitations, this study has provided insights into the entrepreneurial orientation of small businesses in the Eastern Cape and the influence on business success of being entrepreneurially orientated. This study adds to the body of entrepreneurship knowledge and specifically to that relating to entrepreneurial orientation.

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**APPENDIX 1**  
**ITEMS RETAINED FOR THE STATISTICAL ANALYSIS**

<b>BUSINESS SUCCESS</b>	
SUCC1	My small business is profitable.
SUCC2	My small business has experienced growth in profits in the past three years.
SUCC3	My small business is achieving its planned growth rate.
SUCC4	My small business can be regarded as successful.
SUCC5	My small business is financially secure.
SUCC6	My small business has experienced growth in turnover in the past three years.
SUCC7	My small business is achieving the financial goals that have been set for it.
<b>INNOVATIVENESS</b>	
INNOV3	My small business has increased the number of services/products offered during the past two years.
INNOV5	Experimentation and creativity to continuously come up with new products and/or processes is encouraged in my small business
INNOV6	My small business regularly introduces new services/products/processes.
INNOV8	In the past few years, my small business has introduced many new lines of products and/or services.
PRO1	My small business places a strong emphasis on new and innovative products/services/processes.
PRO2	My business is continually pursuing new opportunities.
PRO3	My small business continuously seeks out new products/services/processes.
PRO4	My small business places a strong emphasis on continuous improvement in products/service delivery/processes.
PRO5	My small business is continuously scanning the business environment to identify future opportunities.
<b>AUTONOMY</b>	
AUTO1	Employees in my small business are allowed to make decisions without going through elaborate justification and approval procedures.
AUTO2	Employees in my small business have autonomy (independence) in doing their job.
AUTO3	Employees in my small business do their job without continual supervision.
AUTO5	Employees in my small business seldom have to follow the same work methods or steps while performing their day-to-day tasks.
AUTO6	Employees in my small business often independently bring an opportunity from the idea stage to completion.
AUTO7	Employees in my small business are allowed to be creative and try different methods to complete their job.
AUTO8	Employees in my small business have enough flexibility to resolve problems.
RISK3	When not sure about a decision, my small business usually takes a very confident position to make the best use of any possible opportunity.

**APPENDIX 1 - continued**

<b>RISK-TAKING</b>	
RISK1	The term “risk-taker” is considered a positive attribute for employees in my small business.
RISK5	My small business is willing to commit a relatively large portion of assets to pursue a high-risk high-return project.
RISK6	My small business has a strong preference for high-risk projects (with chances of very high return).
PRO6	My small business is very often the first among competitors to introduce new products/services, administrative techniques and/or operating technologies when dealing with customers.
<b>COMPETITIVE AGGRESSIVENESS</b>	
COMP1	The term “risk-taker” is considered a positive attribute for employees in my small business.
COMP2	My small business is willing to commit a relatively large portion of assets to pursue a high-risk high-return project.
COMP3	My small business has a strong preference for high-risk projects (with chances of very high return).
COMP4	My small business is very often the first among competitors to introduce new products/services, administrative techniques and/or operating technologies when dealing with customers.
COMP5	The term “risk-taker” is considered a positive attribute for employees in my small business.
COMP6	My small business is willing to commit a relatively large portion of assets to pursue a high-risk high-return project.
COMP7	My small business has a strong preference for high-risk projects (with chances of very high return).
INNOV4	My small business is very often the first among competitors to introduce new products/services, administrative techniques and/or operating technologies when dealing with customers.
PRO7	The term “risk-taker” is considered a positive attribute for employees in my small business.
RISK4	My small business is willing to commit a relatively large portion of assets to pursue a high-risk high-return project.



**THE INFLUENCE OF SELECTED ORGANISATIONAL-BASED  
FACTORS ON THE PERVEIVED FUTURE CONTINUITY OF  
INTERGENERATIONAL FAMILY BUSINESSES**

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# THE INFLUENCE OF SELECTED ORGANISATIONAL-BASED FACTORS ON THE PERVEIVED FUTURE CONTINUITY OF INTERGENERATIONAL FAMILY BUSINESSES

## ABSTRACT

This study highlights the influence of selected organisational-based factors on the perceived future continuity of intergenerational small and medium-sized family businesses. The primary objective of this study is twofold: firstly, to identify the potential influence of selected organisational-based factors on the perceived future continuity of family businesses and secondly, to make practical recommendations on actions families in business can take to ensure the future continuity of their family businesses. The target population of this study was intergenerational small and medium-sized family businesses in South Africa and a total of 663 individual questionnaires were returned from 114 family businesses. The data collected was subjected to various statistical analyses, including exploratory factor analysis, calculating Cronbach alpha coefficients and multiple linear regression analysis. The findings of this study show that the more family members perceive sound financial performance of the family business; alignment between the individual needs of family members and that of the business; as well as clear job descriptions, roles and responsibilities, the better the perceptions of business continuity will be. This study has added to the empirical body of family business research, and provides an important first step in gaining insights into selected organisational-based factors that influence the effective functioning of family businesses.

**Keywords:** Family business, organisational-based factors, intergenerational; small and medium-sized enterprises

## **INTRODUCTION AND PROBLEM STATEMENT**

Family businesses are a primary contributor to economic development and job creation in the world (Farrington, 2009: 64; Venter, Boshoff & Maas, 2005: 283; Basu, 2004:13; Morck & Yeung, 2004: 391; Astrachan & Shanker, 2003:212), but their lack of longevity is a source of major concern (Brenes, Madrigal & Molina-Navarro, 2006: 373). There are numerous reasons why family businesses are sold or close their doors after only one generation of family ownership. Many simply lack a qualified successor who wants to continue the business; others are in rapidly consolidating industries and lose out to larger competitors (Van der Merwe, 2010a: 121). However, most importantly, large numbers fail because of the failure of the family and the business to ensure a smooth transfer of the intergenerational family business from the senior to the younger family members (Van der Merwe, 2010a; 2010b). It has been estimated that, internationally, only 30% of family businesses survive the second generation, while fewer than 14% make it beyond the third generation (Bjuggren & Sund, 2001: 12; Matthews, Moore and Fialko, 1999: 159). Smaller family businesses are especially vulnerable as they generally only survive for five to ten years (Perricone, Earle & Taplin, 2001: 108).

One of the greatest threats to the future continuity of the family business is the issue of family relationships (Molly, Laveren & Deloof, 2010; Royer, Simons, Boyd & Rafferty, 2008; Ward, 2004). These relationships, specifically the relationship between the senior and successor generation (Venter, Boshoff & Maas, 2003a), have been identified as one of the main reason for the low number of successful intergenerational transfers among such businesses (Rodriguez, Hildreth & Mancuso, 1999; Friedman, 1991; Kepner, 1991). Given that the relationship between the senior and successor generation comes under increasing pressure once the children join the family business (Lee & Gan, 2010; Rivers, 2005), it is of both interest and importance to investigate these intergenerational family businesses. Through the investigation of intergenerational family businesses, insights can be obtained on how to structure these businesses so that relationships between senior (retiring) and successor (younger) generations can be moderated and managed appropriately.

Intergenerational small and medium-sized family businesses in South Africa will be the focus of this study for three reasons: firstly, the increasingly important role of the small business sector in creating jobs and distributing wealth; secondly, because most family businesses are found in the small and medium-sized business sector; and thirdly, because of the unique dynamics and challenges facing intergenerational family businesses. The South African National Small Business Act (1996) and National Small Business Amendment Act (29/2004: 2) classify micro-, very small, small and medium-sized businesses as businesses that employ fewer than 200 full-time employees. Consequently, for the purpose of this study, a small and medium-sized family business is a business where a single family owns at least 51% of the equity of the business; where a single family is able to exercise considerable influence in the business; where at least two family members are concerned with the senior management of the business; where the transfer of the business to the next generation family members is anticipated; and where the business employs fewer than 200 full-time employees.

The primary objectives of this study are to investigate the influence of selected organisational-based factors on the perceived future continuity of the family businesses; and to make practical recommendations on actions families in business can take to ensure the future continuity of their family businesses.

### **Operationalisation of variables**

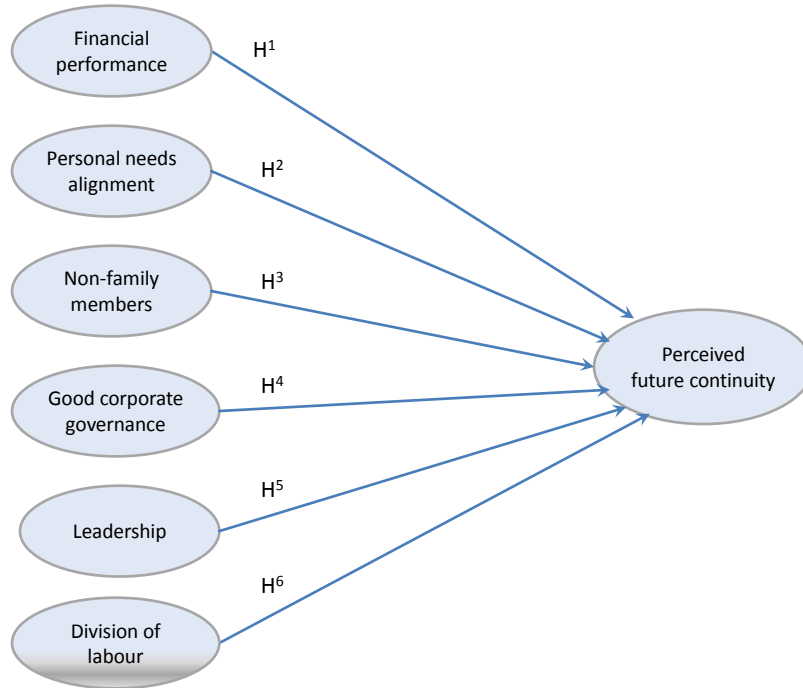
Family businesses are unique in the sense that they are often more concerned with the long-term continuity of the business than non-family firms are (Short, Payne, Brigham, Lumpkin & Broberg, 2009: 21; Miller, Le Brenton-Miller & Scholnick, 2008). Business-owning families place much emphasis on survival (Distelberg & Sorenson, 2009: 70; Short *et al.*, 2009: 12) and view the business as a long-term resource base to be used by the family, potentially for multiple generations. The success of the family business is judged in terms of whether the business can be handed over as a legacy to future generations. The future continuity of the family business is thus at the heart of most families in business together.

Few challenges, however, require more of a business owner than passing on the family business to the next generation (Aronoff & Ward, 1992: 1). Family members' lifelong hopes, dreams, ambitions, relationships, and personal struggles with mortality all come to play in succession (Van der Merwe, Venter & Ellis, 2009: 4, 5). There are several factors that can influence the successful transfer of the family business from one generation to the next, i.e. lack of succession planning (Van der Merwe *et al.*, 2009); the willingness of the senior generation owner-manager to let go (Van der Merwe, 2010b); and the suitability of the younger generation successor to successfully manage the business after succession (Van der Merwe, 2010a). Furthermore, various relational-based (Venter, Farrington & Boshoff, 2009; Venter *et al.*, 2003a), family-based (Venter & Boshoff, 2006), successor-based (Venter *et al.*, 2005) and organisational-based (Venter & Boshoff, 2007) factors, among others, have also been identified as influencing the future success of the family business.

The focus of this study is on the influence of selected organisational-based factors on the future continuity of intergenerational family businesses. The organisational behaviour literature, and more specifically the teamwork literature, suggests that certain organisational aspects should be in place for a successful working arrangement between people. The organisational-based factors selected to be investigated in this study (see Figure 1) are identified in the organisational behaviour literature and are justified by a sufficiency of theory in the family business literature. Evidence supporting their inclusion is discussed in the paragraphs below. Claims are not made that the model has an exhaustive coverage of every possible factor influencing the *Perceived future continuity* of the family business.

These organisational-based factors identified could be critical for ensuring the future continuity of the business. In Figure 1 (the hypothesised model), the selected organisational-based factors influencing the dependent variable are depicted, namely: *Financial performance*, *Needs alignment*, *Non-family members*, *Good corporate governance*, *Leadership* and *Division of labour*. The model proposes that the selected organisational-based factors impact on the *Perceived future continuity* of the family business.

**Figure 1: The hypothesised model**



### **Dependent variable**

According to Zellweger and Nason (2009: 205), performance outcomes in family firms have broadly been categorised as financial and non-financial. Cater and Justis (2009: 111), as well as Short *et al.* (2009: 12), assert that non-economic goals may even take precedence over goals such as growth and profitability. Non-economic goals include providing employment for family members (Cater & Justis, 2009: 111; Short *et al.*, 2009: 12; Chrisman, Chua & Litz, 2004), family well-being (Chrisman *et al.*, 2004; Distelberg & Sorenson 2009: 70) and transgenerational sustainability (i.e. wanting to preserve the business so that it can be passed on to the next generation (Chrisman, Kellermanns, Chan & Liano, 2010: 14; Cater & Justis, 2009: 120; Short *et al.*, 2009: 21). Family firms are often more concerned with the long-term continuity of the business than non-family firms are (Short *et al.*, 2009: 21; Miller *et al.*, 2008). They place much emphasis on survival (Distelberg & Sorenson, 2009: 70; Short *et al.*, 2009: 12) and view the business as a long-term resource base to be used by the family, potentially for multiple

generations (Distelberg & Sorenson 2009: 75; Castillo & Wakefield, 2007). As illustrated in Figure 1, the dependent variable used in this study is the *Perceived future continuity* of the family business.

*Perceived future continuity* refers to the family business providing future generations with employment, wealth, involvement and a legacy. Commitment of the family to the future continuity of the business is a priority as it supports the development of the shared future vision and the family business continuity plan (Carlock & Ward, 2001: 54). The future component of continuity needs to include the family's commitment to nurture the business and to support subsequent future generations with both employment opportunities and financial assistance (Miller & Le Breton-Miller, 2005: 38). This commitment therefore urges family members to conserve financial and other resources and to build for the years to come. Since the future continuity of a family business has distinct past and future components, family executives must ensure that a respected and established legacy is handed over from the previous generation to the next generation (Miller & Le Breton-Miller, 2005: 37).

## **Independent variables**

Various organisational-based factors, i.e. *Financial performance*, *Needs alignment*, *Non-family members*, *Good corporate governance*, *Leadership* and *Division of labour*, affect the future continuity of family businesses (Eybers; 2010; Farrington, 2009; Venter *et al.*, 2009). Anecdotal and empirical evidence supporting the inclusion of these selected organisational-based factors in the hypothesised model will now be discussed.

### Financial performance

Family businesses are able to outperform non-family businesses on a number of levels. Several studies (Adkins, 2006; Carlson, 2006; Ceja & Tàpies, 2009; Granata & Chirico, 2010; Pindado, Requejo & de la Torre, n.d.) indicate that reinvestments of earnings, low dividend payouts and long-term planning result in family businesses being more profitable than non-family businesses. This implies that the family does not only exist as a mere social unit, but also an important

economic unit (Upton, 2001: 7). The financial performance of a business probably has the greatest impact on the longevity of that business. As the business grows and moves from one generation to the next, new economic activities are generated and it is therefore critical to administrate the growth of the business. The number of employees needs to increase as the business grows so that the overloading of existing employees does not occur. The overloading of existing employees will lead to an increase in employee turnover (Timmons & Spinelli, 2007: 563; Brigham & Ehrhardt, 2005: 480).

The tension among senior and successor generations in family businesses often revolves around the aggressive younger family members seeking to explore new and exciting deals in contrast to the older members who seek to move forward on the pathway that created the family's fortune (Timmons & Spinelli, 2007: 561). Enterprising families generate new economic activities and build long-term value across generations. Timmons and Spinelli (2007: 563) and Brigham and Ehrhardt (2005: 480) summarise that the essence of any business' financial performance is measured in terms of the following criteria, namely growth in income or turnover and maintaining positive ratios. Family businesses thus need to increase sales and establish ways to minimise expenses, ultimately ensuring profit maximisation. Furthermore, constant positive ratios can ensure the future financial security of the business. Only if these criteria are met can family members have peace of mind that the financial wellbeing of their business is secure and will contribute towards the long-term continuity of the business. This is supported by Venter (2003), who reported that the more financially secure the owner-manager and the business are, the more likely the continued profitability of the business into the future will be.

Against this background, the following hypothesis is formulated:

H<sup>1</sup>: There is a positive relationship between the *Financial performance* of the family business and the *Perceived future continuity* of the participating intergenerational family businesses



## Personal needs alignment

The individual or personal effort of each family member towards the continuity of the business is a priority issue in family businesses (Slaughter, 2008). The reason for this is that individuals must share and align their personal needs with the needs of both the family and the business (Lansberg, 1999: 57). Personal needs alignment, like aligned family commitment, is at the heart of the family business and exists when an employee's needs are properly aligned with opportunities offered in the business (Venter, 2003: 154). According to Sharma and Irving (2005: 21), when family members perceive a fit between their career interests and the opportunities available to them in the family business, they become devoted to that organisation, and make a positive contribution to its success. If family members are forced into the family business, the effects on the individual as well as the business could be disastrous (Carlock & Ward, 2001: 51). Individual family members need to understand that they should be involved in the family business because they want to and not because they are forced to, or that they will fail to succeed outside the family business (Fox, Nilakant & Hamilton, 1996: 19; Stavrou, 1995: 173). They must prefer to work in the family business even if luring career opportunities exist outside the family business (Maas, Van der Merwe & Venter, 2005: 19). If the individual believes that his/her personal needs in terms of goals, vision and long-term planning are totally aligned with the needs of the business, then he/she will be committed to the business. These individuals will make a positive contribution towards family harmony and ultimately the future continuity of the business due to their commitment and passion for the family business (Fox *et al.*, 1996: 19; Stavrou, 1995: 173).

Sufficient anecdotal and empirical evidence is presented above to hypothesise that:

H<sup>2</sup>: There is a positive relationship between the *Personal needs alignment* of family members and the *Perceived future continuity* of the participating intergenerational family businesses

## Non-family members

Often, family members do not have the required skills needed to undertake the operational and managerial activities of the family business (Aronoff & Ward, 2000: 4-6). The only option is to

outsource these activities to suitable non-family employees who become an important source of intellectual capital for the business (Maas *et al.*, 2005: 134). The family should thus undertake to appoint competent non-family employees to supplement their shortcomings and who will add significant value to the success of the business (Maas *et al.*, 2005: 134). Furthermore, the senior generation family members should delegate some decision-making and other responsibilities to non-family members (Maas *et al.*, 2005: 134). Non-family members are likely to have a more neutral view than relatives concerning decision-making about family affairs. In difficult situations, non-family members can act as mediators between family members (Kets de Vries, 1996: 258). The influence that non-family members can have on family members to make sound, well-reasoned decisions can be of particular importance for the long-term sustainability of the family business (Kets de Vries, 1996: 258).

Against this background, the following hypothesis is formulated:

H<sup>3</sup>: There is a positive relationship between the involvement of *Non-family members* in the family business and the *Perceived future continuity* of the participating intergenerational family businesses

#### Good corporate governance

The role of good corporate governance in a family business is to add value by directing, controlling, guarding, monitoring and protecting assets, and maximising shareholder value (Adendorff, Boshoff, Court & Radloff, 2005: 43; Neubauer & Lank, 1998: 60). According to Egan (1998: 3), family businesses without any good corporate governance usually begin to experience problems when the business transfers from the founder to the second generation. Businesses that survive this transition normally have a sound and acceptable governance structure in place (Venter, Boshoff & Maas, 2003b: 5). The design of governance structures in a family business must be such that it safeguards the long-term interest of the family shareholders. The aim is to ensure growth, continuity, welfare and promotion of family harmony in the family business (Lansberg, 1999: 281). This aim implies that both the business and the family are in need of good corporate governance to ensure succession (Venter *et al.*, 2003b: 5). Similarly,

Adendorff *et al.* (2005: 37) contend that the long-term interests of family shareholders must be maintained through designing effective governance structures in the family business. Through good corporate governance, the growth and continuity of the business can be ensured and the family's harmony and welfare are preserved (Adendorff *et al.*, 2005: 37; Aronoff & Ward, 1996: 54). Both Adendorff (2004) and Venter (2003) found evidence of positive relationships between the existence of governance structures and the sustained profitability of the family businesses that participated in their studies.

As the family business passes from the entrepreneurial stage through the second and third generations of family ownership and beyond, the family organisation may evolve from informal talks over the dinner table to a family assembly guided by a governing body, such as a family council (Aronoff & Ward, 1996: 53). Similarly, the board may evolve from a single panel to a holding-company board with subsidiary boards overseeing various units of the family business portfolio. Every family business is unique and embracing systematic governance processes can help family business to achieve goals shared by virtually all (Aronoff & Ward, 1996: 53). The family and the business can obtain advantages from orderly decision-making, peaceful continuity and the freedom to make decisions based on the highest and best purposes.

Family business governance structures include the following (Neubauer & Lank, 1998: 67): the family itself and its institutions, such as the family meeting or forum, the family council and shareholders' committee; the board of directors; and top management of the family business (including non-family members). The various family business governance structures need to work closely together to deliver satisfactory results for the long-term success of the family business. Many business-owning families drift unconsciously into haphazard or destructive patterns of decision-making and communication that can threaten and even destroy those shared interests (Aronoff & Ward, 1996: 1).

The following hypothesis is formulated in this regard:

H<sup>4</sup>: There is a positive relationship between *Good corporate governance* in the family business and the *Perceived future continuity* of the participating intergenerational family businesses

## Leadership

Leaders significantly influence the culture of an organisation and therefore it is vital that leaders of family businesses have the knowledge and experience of the operational activities of their businesses, good judgement and interpersonal skills, as well as credibility with regard to the businesses and making business decisions (Chrisman, Steier & Chua, 2008: 943; Aronoff & Baskin, 2005: 4; Aronoff, 1998: 183). According to Robbins and DeCenzo (2005: 354), leaders are individuals who are able to influence others and who possess managerial authority; meaning they are able to plan, organise and control. The success of a family business can never depend upon the leadership of a single person. Individual leadership can disregard the family, inevitably leading to discontentment and bitterness. Only with consensus among family members on the family values and family vision, and through their cooperative effort, can the business rise to new heights (Davis & Taguiri, 1989: 19).

Family leaders who are able to convince all employees to become more involved in the business, will move the business forward as a cohesive unit, giving the family and the business the vital support they both need (Aronoff & Baskin, 2005: 5). A cohesive unit can lead to an increase in employee loyalty, responsibility and effort, ultimately leading to an increase in the effectiveness of the business, family harmony and employee harmony (Harris, Reid & McAdam, 2004: 1427). Families may have disputes and disagreements, but these differences are part of the inherent challenge of running a family business. It is therefore the duty of family leaders to build family harmony or unity by nurturing healthy relationships among all employees inside the family business (Aronoff & Baskin, 2005: 4).

As the family moves into second, third and fourth generations, family leaders often articulate the shared values of the family, thereby creating opportunities to build and display the family's culture, philanthropy and commitment to the community. Family leaders are also responsible for resolving conflicts, family predicaments and therefore contribute to achieving family harmony, and ultimately ensuring the longevity of the family business (Aronoff & Baskin, 2005: 4).

The following hypothesis is subjected to further testing:

H<sup>5</sup>: There is a positive relationship between *Leadership* in the family business and the *Perceived future continuity* of the participating intergenerational family businesses

#### Division of labour

The basic rules for employment in a family business should be established before family members are allowed to enter the family business as employees (Murak, 2001: 12). Jaffe (1991: 199) states that when any family member enters a family business, their specific job position should be clearly described. Using job descriptions in recruiting and measuring the performance of family employees suggests that positions will be rewarded and compensated on merit and accomplishments, not family membership (Loeb, 2001: 59). The job description must clearly identify key duties, responsibilities and demarcated areas of authority in the family business (Brooks, 2001: 37). The job description is by no means complete, since casual tasks and informal expectations are constantly introduced and delegated by supervisors and peers alike. The job description, however, must be sufficiently detailed, preferably in writing, to allow knowledgeable parties to value the core job elements and to establish a score that reflects the job's value to the business (Brooks, 2001: 37). Acknowledgement of the parties concerning the job description of an employee should also preferably be in writing, so that the parties can agree on each other's roles, responsibilities and positions inside the business (Brooks, 2001: 37).

Roles and responsibilities of all employees, including family members involved in a family business, may sometimes be unclear or not defined at all (Kets de Vries, 1996: 23). In most family businesses, multiple roles and responsibilities, that overlap, are issued to a single person. This may cause role confusion to the individual, which may lead to inefficient communication and poor decision-making by the family member (Ibrahim & Ellis, 2004: 7). It is thus important to specify and communicate clearly defined roles and responsibilities to all employees in the family business, so that they understand it and agree on it as soon as they commence their employment in the business. It is therefore important for both current and prospective employees

to have a clear understanding of the roles and responsibilities of the positions they fill inside the family business. Against this background, it is hypothesised that:

H<sup>6</sup>: There is a positive relationship between the *Division of labour* among family members and the *Perceived future continuity* of the participating family businesses

## **RESEARCH METHODOLOGY**

### **Development of the measuring instrument**

In order to operationalise the variables, a measuring instrument was constructed. In this study, the measuring instrument consisted of variables and items whose reliability and validity have been confirmed in previous studies (Farrington, 2009; File & Prince, 1996; Sharma, 1997; Venter, 2003). Where publicised items were not available, self-developed items were used. For the purpose of this study, six latent variables were identified to measure the dependent variable *Perceived future continuity*. These are: *Financial performance*, *Personal needs alignment*, *Non-family members*, *Good corporate governance*, *Leadership* and *Division of labour*. The measuring instrument (used in this study) assessed the six independent variables and the dependent variable by means of 48 statements on the basis of a seven-point Likert-type scale ranging from *Strongly disagree* (1) to *Strongly agree* (7).

### **Study population**

The target population of this study was intergenerational small and medium-sized family businesses in South Africa. Numerous attempts were made to secure a database of family businesses in South Africa, but to no avail. Therefore, it was decided to use a convenience sample, by means of the snowball sampling technique, to identify the family businesses that participated in this study. A list of 420 family businesses willing to participate in the study was compiled as a result of these efforts. The sampling technique and methodology are consistent with that of other family business researchers who have been constrained by the lack of a national

database on family businesses (Eybers, 2010; Farrington, 2009; Van der Merwe & Ellis, 2007; Adendorff, 2004; Sonfield & Lussier, 2004; Venter, 2003).

### **Data collection**

The family businesses identified by means of the snowball convenience sampling technique were individually contacted. The individual family members in the particular family business were identified and questionnaires were then mailed to these family members. Each questionnaire was sent with a covering letter that guaranteed the confidentiality of the responses, as well as a pre-paid reply envelope in order to make it as easy as possible for respondents to take part in the research. In total, 931 questionnaires were returned from 173 family businesses. Subsequently, only the family businesses that employ family members of both the senior and the successor generation were included in the specific study. A total of 114 businesses with 663 completed questionnaires were included in the study.

### **Statistical analysis**

The data collected were statistically analysed using STATISTICA (Statsoft, 2010) and PASW Statistics (PASW, 2010). The construct validity of the measuring instrument was assessed by means of an exploratory factor analysis, whereas the reliability of the measuring instrument was assessed by calculating Cronbach alpha coefficients. The relationship between the independent variables and the dependent variable was examined by means of multiple regression analysis.

## **EMPIRICAL RESULTS**

### **Demographic information**

The majority of the 663 participating respondents were under the age of 40 years (51.59%), 18.10% between the ages of 40 and 49, with 30.37% over the age of 50 years. Furthermore, a more or less equal distribution of male and female respondents participated (53.54% male; 46.46% female). A total of 27.15% of the participating family members were from the senior

generation (parents), 25.79% from the younger generation (off-spring), 5.43% were in-laws (married to the younger generation) and 4.22% were other family members (i.e. uncles, cousins). All the businesses that participated in this study (n = 114) could be categorised as small and medium-sized family businesses (fewer than 200 employees).

### **Construct validity and reliability results**

Before conducting a multiple regression analysis to determine the relationships between the variables under investigation, the number of factors and the items loading onto each factor must be known (Hair, Black, Babin, Anderson & Tatham, 2006). For this reason, an exploratory factor analysis was conducted to identify the unique factors present in the data before implementing the multiple regression analysis. The Kaiser-Meyer-Olkin measure of sampling adequacy of 0.948 indicates that patterns of correlations are compact and that factor analysis should yield reliable factors (Field, 2009: 647). Bartlett's test of sphericity yielded a *p*-value of smaller than 0.001, indicating that the correlation between variables is sufficient for factor analysis. The dependent and independent variables were analysed as one model. In this study, there was theoretical justification to believe that the factors measuring the variables would correlate with each other, therefore a Principle Component Analysis with an Oblique (Oblimin with Kaiser normalisation) rotation was performed on the principal components of the exploratory factor analysis, as suggested by Field (2009: 643). The correlation matrix for these six variables indicates correlations of 0.131 to 0.491 between the variable combinations (Ellis & Steyn, 2003: 53), confirming that an oblique rotation should have been used (Field, 2009: 643).

Kaiser's criterion was used to determine the number of factors to be extracted, namely to retain factors with eigen-values greater than one (Field, 2009: 647). A total of 39 items demonstrated sufficient discriminant validity by loading to a sufficient extent and, therefore, nine items were deleted. As recommended by Field (2009: 644), factor loadings greater than 0.40 were considered significant. The Oblimin rotated factor matrix of the variables is presented in Table 1.



**Table 1: Oblimin rotated factor matrix: Dependent and independent variables**

Item	Factor 1: Needs alignment	Factor 2: Corporate governance	Factor 3: Non-family members	Factor 4: Financial performance	Factor 5: Division of labour	Factor 6: Future continuity
Need2	<b>0.509</b>	0.040	0.023	0.066	0.031	0.368
Need5	<b>0.498</b>	0.021	0.167	0.142	0.119	0.155
Cont4	<b>0.491</b>	0.146	-0.046	0.001	0.161	0.170
Lead1	<b>0.456</b>	-0.110	0.008	0.109	0.131	0.248
Need4	<b>0.451</b>	-0.011	0.092	0.122	0.208	0.159
Lead6	<b>0.421</b>	0.126	0.081	0.166	0.262	0.044
Gov3	-0.133	<b>0.745</b>	0.103	-0.017	-0.056	0.022
Gov2	-0.100	<b>0.722</b>	0.066	-0.069	0.042	0.113
Gov9	0.294	<b>0.693</b>	0.032	-0.108	-0.012	0.010
Gov4	-0.175	<b>0.679</b>	-0.082	0.152	0.219	0.008
Gov8	0.290	<b>0.658</b>	0.028	-0.017	0.089	-0.032
Gov6	-0.138	<b>0.653</b>	0.039	0.185	0.066	0.025
Gov1	0.330	<b>0.583</b>	0.108	-0.019	-0.011	0.014
Gov7	0.231	<b>0.502</b>	0.115	0.149	0.079	0.040
Gov5	0.184	<b>0.477</b>	0.023	0.062	0.294	-0.029
Non-fam1	0.005	0.006	<b>0.789</b>	-0.044	0.017	0.072
Non-fam3	-0.022	0.041	<b>0.761</b>	0.033	-0.069	-0.046
Non-fam2	-0.145	-0.054	<b>0.746</b>	-0.044	0.110	0.137
Non-fam4	0.094	0.176	<b>0.696</b>	-0.006	-0.056	-0.105
Non-fam5	0.058	-0.155	<b>0.611</b>	0.057	0.060	0.022
Non-fam6	-0.007	0.182	<b>0.603</b>	0.020	-0.031	-0.082
Fin4	0.035	-0.011	0.064	<b>0.878</b>	-0.072	-0.070
Fin3	-0.018	-0.051	-0.034	<b>0.861</b>	0.067	-0.038
Fin1	-0.007	-0.006	0.022	<b>0.801</b>	-0.078	0.114
Fin5	-0.040	0.128	-0.033	<b>0.625</b>	0.104	0.179
Fin6	0.003	0.127	0.005	<b>0.561</b>	-0.012	0.302
Div3	-0.064	-0.039	0.063	-0.020	<b>0.808</b>	0.005
Div7	-0.020	0.104	-0.036	-0.065	<b>0.796</b>	0.076
Div4	-0.079	-0.032	0.024	-0.007	<b>0.771</b>	0.131
Div1	0.139	0.110	0.058	-0.008	<b>0.696</b>	-0.066
Div2	0.060	0.169	-0.010	0.010	<b>0.651</b>	0.091
Div6	0.240	-0.071	-0.030	0.281	<b>0.538</b>	-0.118
Cont5	0.016	0.020	0.031	0.044	0.043	<b>0.803</b>
Cont6	-0.046	0.020	-0.020	0.079	0.027	<b>0.803</b>

Cont2	0.083	0.021	-0.001	-0.025	-0.038	<b>0.748</b>
Cont3	-0.032	-0.043	0.091	0.020	0.073	<b>0.738</b>
Cont1	0.021	0.080	-0.048	0.151	0.036	<b>0.664</b>
Need1	0.393	0.028	0.047	0.019	0.120	<b>0.472</b>
Need8	0.326	0.052	-0.022	0.122	0.109	<b>0.460</b>
<b>Cronbach alpha</b>	<b>0.847</b>	<b>0.895</b>	<b>0.807</b>	<b>0.871</b>	<b>0.869</b>	<b>0.901</b>

- (1) Loadings greater than 0.40 were considered significant
- (2) The items included in the factor analysis are provided in Appendix 1
- (3) The six extracted factors were labelled as follows:

Factor 1: Personal needs alignment (Need)

Factor 2: Good corporate governance (Gov)

Factor 3: Non-family members (Non-fam)

Factor 4: Financial performance (Fin)

Factor 5: Division of labour (Labour)

Factor 6: Perceived future continuity (Cont)

Six factors with eigen-values greater than one, explaining 60.62% of the variance before rotation, were extracted in the exploratory factor analysis. After rotation, these factors could be identified as the theoretical dimensions of *Personal needs alignment*, *Good corporate governance*, *Non-family members*, *Financial performance*, *Division of labour* (the independent variables) and the dependent variable, *Perceived future continuity*.

Three of the eight items originally intended to measure the latent variable *Personal needs alignment* (Need2, Need4, Need5) loaded onto factor 1. Two items used to measure the latent variable *Leadership* (Lead1, Lead6) and one item used to measure the latent variable *Perceived future continuity* (Cont4) also loaded onto factor one. Factor 1 comprised six items and was labelled *Personal needs alignment*. This factor will be considered as an independent variable influencing the dependent variable in this study. *Personal needs alignment* refers to the extent to which the personal needs of individual family members are aligned with the needs of the business. Refer to Appendix 1 for the wording of the statements (items) measuring the factors.

All nine items originally intended to measure the latent variable *Good corporate governance* loaded onto factor 2, as expected. *Good corporate governance* refers to the extent that the family business has corporate governance structures, such as a board of directors, an advisory board, formal rules and regulations, family forums and meetings in place to ensure good corporate governance.

Furthermore, all six items originally intended to measure the latent variable *Non-family members* loaded onto factor 3, as expected. *Non-family members* refers to the extent to which the family business employs non-family members to supplement their skills and competencies, and whether family members draw on the expertise of non-family members to assist them in business matters.

With regard to the fourth factor, labelled *Financial performance*, five of the six items used to measure the latent variable *Financial performance*, loaded onto factor 4 (Fin1, Fin3, Fin4, Fin5, Fin6). The variable *Financial performance* of the family business refers to the business experiencing growth in turnover and profits over the past few years and whether the business is regarded as financially successful and secure.

Six of the seven items originally intended to measure the latent variable *Division of labour* loaded onto factor 5 as expected. This factor, labelled *Division of Labour*, refers to the extent to which family members employed by the family business have clear job descriptions, distinct roles, responsibilities and authority.

The sixth factor, labelled *Perceived future continuity*, consisted of seven items. Five of the six items intended to measure the latent variable *Perceived future continuity* loaded onto factor, 6 as expected (Con1, Cont2, Cont3, Cont5, Cont6). Two of the items used to measure the latent variable *Personal needs alignment* (Need1, Need8) also loaded onto factor six. The respondents thus regarded the items as additional measures of factor 6. *Perceived future continuity* will be considered as the dependent variable in this study and refers to the extent to which the family business provides future generations with employment, wealth, involvement and a legacy.

The results of the exploratory factor analysis indicated that two of the items originally intended to measure the latent variable *Leadership* (Lead1, Lead6) loaded significantly onto the factor *Personal needs alignment*. The remaining items measuring *Leadership* did not load onto any factor. The variable *Leadership* was thus excluded from further analysis in this study.

Items that displayed no significant cross loadings, that loaded to a significant extent onto one factor only, and reported a factor loading of  $\geq 0.40$  were considered significant and were retained for further analysis (Hair *et al.*, 2006). Factor loadings of  $\geq 0.40$  were reported for all items included in the final factor analysis. Consequently, evidence of construct and discriminant validity for the measuring instrument is provided.

Cronbach alpha coefficients of greater than 0.70 were returned for all constructs. The Cronbach alpha coefficients for each factor illustrated in Table 1 suggest that reliable measuring scales were used to measure the constructs under investigation (Nunnally & Bernstein, 1994).

### **Modified hypotheses**

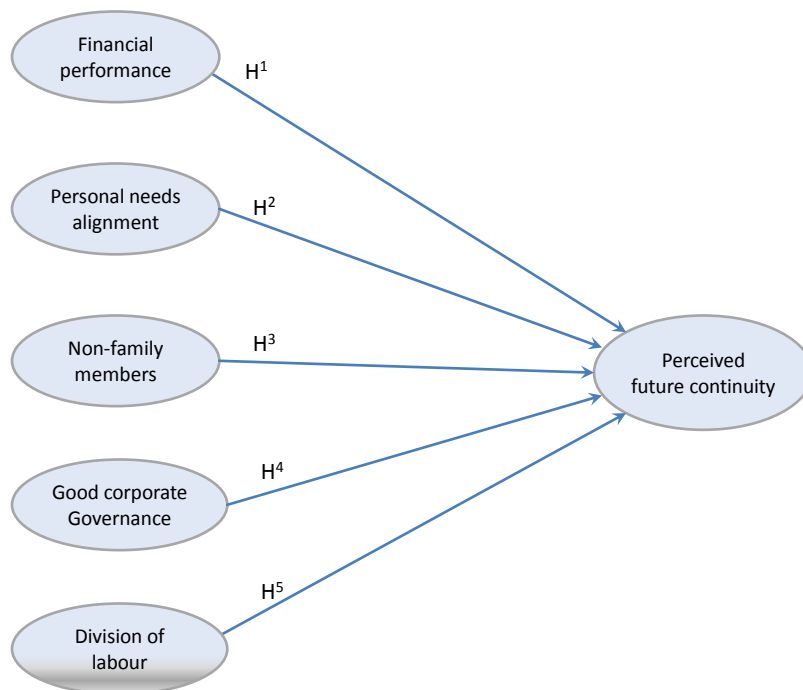
Despite several items not loading as expected, it was not necessary to reformulate the hypotheses after the exploratory factor analysis. However, given that none of the items intended to measure the independent variable *Leadership* loaded as expected, this variable was no longer included in the study. The hypotheses were consequently renumbered and are summarised below:

- H<sup>1</sup>: There is a positive relationship between the *Financial performance* of the family business and the *Perceived future continuity* of the participating intergenerational family businesses
- H<sup>2</sup>: There is a positive relationship between the *Personal needs alignment* of family members and the *Perceived future continuity* of the participating intergenerational family businesses
- H<sup>3</sup>: There is a positive relationship between the roles of *Non-family members* in the family business and the *Perceived future continuity* of the participating intergenerational family businesses
- H<sup>4</sup>: There is a positive relationship between *Good corporate governance* in the family business and the *Perceived future continuity* of the participating intergenerational family businesses

H<sup>5</sup>: There is a positive relationship between the *Division of labour* among family members in the family business and the *Perceived future continuity* of the participating intergenerational family businesses

The modified hypothesised model is illustrated in Figure 2.

**Figure 2: The modified hypothesised model**



### **Relationship between the constructs**

Multiple linear regression analysis is a tool for predicting a dependent variable based on several independent or explanatory variables (Cooper & Schindler, 2007; Hair, Anderson, Tatham & Black, 1998) and as such allows for the simultaneous investigation of the effect of two or more independent variables on a single dependent variable. Factor scores for each participant were computed as the average of all items contributing to the relevant factor, automatically replacing missing values by means of substitution. In order to determine whether the independent variables, i.e. *Financial performance*, *Personal needs alignment*, *Non-family members*, *Good corporate governance* and *Division of labour*, have an influence on the dependent variable *Perceived future*

*continuity*, a multiple linear regression analysis was performed. The results of the multiple regression analysis are presented in Table 2. A normal probability plot on the residuals of this fit confirmed the assumption of normality.

**Table 2: Multiple regression results: Impact of the independent variables on the *Perceived future continuity* of the participating intergenerational family businesses**

Model	Non-standardised coefficients		Standardised coefficients	t-value	p-level
	B	Std. Error	Beta		
(Constant)	1.160	0.153		7.576	0.000**
Financial performance	0.271	0.028	0.267	9.530	0.000**
Personal needs alignment	0.459	0.030	0.535	15.208	0.000**
Non-family members	0.002	0.018	0.003	0.127	0.899
Good corporate governance	-0.034	0.022	-0.047	-1.540	0.124
Division of labour	0.135	0.030	0.153	4.455	0.000**

$R^2 = 0.652$  (\*\*  $p < 0.001$ )

Table 2 indicates that, in practice, a significant percentage (65.2%) of the variation in the *Perceived future continuity* of the family business is explained by the organisational-based factors, i.e. *Financial performance*, *Personal needs alignment*, *Non-family members*, *Good corporate governance* and *Division of labour*.

The multiple regression analysis indicates significant positive relationships between the independent variables *Financial performance* ( $p < 0.001$ ), *Personal needs alignment* ( $p < 0.001$ ) and the *Division of labour* ( $P < 0.001$ ) and the dependent variable *Perceived future continuity*, respectively. The hypotheses that there is a positive relationship between the organisational-based factors *Financial performance* ( $H^1$ ), *Personal needs alignment* ( $H^2$ ) and *Division of labour* ( $H^5$ ), and the *Perceived future continuity* of the family business can thus be accepted. The hypotheses that there is a positive relationship between the organisational-based factors *Non-family members* ( $H^3$ ) and *Good corporate governance* ( $H^4$ ), and the dependent variable *Perceived future continuity* can, however, not be accepted.

The positive regression coefficients indicate that the *Perceived future continuity* of the family business is positively influenced by the *Financial performance* of the family business, the *Personal needs alignment* of family members in the business and the *Division of labour* among family members in the participating intergenerational family businesses.

## DISCUSSION AND RECOMMENDATIONS

The primary objective of this study was firstly to investigate the influence of selected organisational-based factors on the perceived future continuity of the family businesses and secondly to make practical recommendations on actions families in business can take to ensure the future continuity of their family businesses. The results show that the participating family members in this study perceived the following organisational-based factors as influencing the *Perceived future continuity* of the family business, namely *Financial performance*, *Personal needs alignment* and the *Division of labour*. In other words, the more the family business performs financially, and the more individual family members' needs are aligned with business needs, as well as the clearer the roles and responsibilities for family members are, the more likely it is that the family business will continue into the future and the more likely it is to be successfully transferred from the senior to the successor generation family members.

In order to ensure the future continuity of the family business, several suggestions are put forward. Family businesses should be managed efficiently and effectively to ensure the financial performance of the family business. That could include sound business principles such as being customer orientated, focussing on core business activities and being competitive in the business environment.

Furthermore, family members should be involved in the family business because they want to be and not because they are forced to. It is thus very important that family members are willing and happy to be involved in the family business. Family businesses should therefore put extra effort into the development and growth of successor generations. Family members from the senior generation should create a motivating work environment to ensure job satisfaction and an

environment where the full potential of the younger generation family members are realised. Younger generation family members should, furthermore, feel worthy to make an important contribution to the success and sustainability of the family business.

It is suggested that the basic rules for employment in a family business should be established before family members are allowed to enter the family business as an employee. All family members should have clear job descriptions, including family members of the senior generation. Job description must clearly identify key duties, responsibilities and areas of authority in the family business.

Although no positive relationship is reported between the *Good corporate governance* of the family business and the future continuity of the business, ample evidence suggests (Adendorff, 2004; Venter, 2003) that it is critically important to establish and maintain governance structures such as a board of directors, a family council, family forums and meetings to ensure good corporate governance and harmonious family relationships. Several other studies (Farrington, 2009; Venter, 2003) have also found no empirical support for a relationship between *Governance* and measure of family business success. A general absence of governance structures appears to exist in family businesses (Maas, 1999), which could provide a possible explanation for the finding in this study.

Family members who invest time and effort in ensuring the financial security of the family business, ensuring the alignment of individual and business needs, and ensuring that clear roles and responsibilities for family employees exist, can positively contribute to the future continuity and success of the family business.

## **LIMITATIONS AND IMPLICATIONS FOR FUTURE RESEARCH**

In all empirical studies, their limitations must be identified and considered when making recommendations and conclusions. Although family businesses from most of the provinces in South Africa participated in this study, due to the use of a non-probability snowball convenience sample, the sample cannot be considered to be representative of all small and medium-sized



family businesses in South Africa. This study also only focused on intergenerational family businesses. As such, the findings reported cannot be generalised to the general family business population.

Another limitation of this study is that the proposed hypothesised model focused exclusively on a selected number of organisational-based factors affecting the future continuity of the family business. Future studies could investigate various other organisational-based factors and incorporate them into a more comprehensive model that describes the factors influencing the continuity of the family business.

Despite the limitations identified, this study has added to the empirical body of family business research. Based on the fact that published empirical evidence of the influence of organisational-based factors on the future continuity and sustainability of small and medium-sized family businesses both nationally and internationally is still lacking, the findings of this study present several opportunities for further research.

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## Appendix 1: Dependent variables

<b>PERCEIVED FUTURE CONTINUITY</b>	
CONT2	I see our family business as a legacy to be handed over to future generations
CONT6	Continuing the business into the future will provide employment opportunities for future generations
CONT5	Continuing the business into the future will give future generations the opportunity to be involved in the family business
CONT3	I see our family business as a means to create wealth for future generations
CONT1	I see our family business as continuing into the future
CONT4	I see our family business as a means to sustain harmonious family relationships for future generations

## Appendix 1: Independent variables

<b>PERSONAL NEEDS ALIGNMENT</b>	
Need2	I can realise my ambitions through my involvement in our family business
Need5	My career needs and interests are closely aligned with opportunities within the family business
Cont4	I see our family business as a means to sustain harmonious family relationships for future generations
Need4	I prefer to work in the family business even if I have other career options to choose from
Lead1	The family member(s) who takes/take the lead in our family business is/are always considerate towards others working in the business
Lead6	The family member(s) who takes/take the lead in our family business considers/consider the opinions of others when making decisions
<b>GOOD CORPORATE GOVERNANCE</b>	
Gon3	Our family business has a formal document that describes the relationship between the family and the business
Gov2	Our family business has a formal advisory board (board of directors)
Gov9	The family has a family forum that meets to discuss family and business matters
Gov4	Our family business has policies (entry/exit and compensation policies, job descriptions, etc.) that guide our actions and decisions in the business
Gov8	Family members meet regularly to discuss matters of mutual interest
Gov6	Our family business has written plans (e.g. estate and/or succession and/or business plans) to guide actions and decisions in the business

Gov1	Family members hold regular scheduled meetings concerning our family business
Gov7	We undertake formal strategic planning for our family business
Gov5	Our family business has a standing agreement on how to address issues that may arise in the business

<b>NON-FAMILY MEMBERS</b>	
Non-fam1	In our family business we sometimes approach non-family members for advice on business matters
Non-fam3	In our family business we involve non-family members to assist us in managing our business
Non-fam2	If necessary we draw on the expertise of non-family members to assist us with business matters
Non-fam4	In our family business we involve non-family members when we have to make important strategic decisions about our business
Non-fam5	In our family business we employ non-family members to supplement our skills
Non-fam6	In our family business non-family employees form part of the management team
<b>FINANCIAL PERFORMANCE</b>	
Fin4	Our family business has experienced growth in profits over the past two years
Fin3	Our family business is profitable
Fin1	Our family business has experienced growth in turnover over the past two years
Fin5	I regard our family business as being financially successful
Fin6	The financial wellbeing of our family business is secure
<b>DIVISION OF LABOUR</b>	
Div3	In our family business a clearly defined division of labour exists between members involved in the business
Div7	Family members involved in the family business have clear work roles and responsibilities
Div4	In our family business clearly demarcated areas of authority and responsibility exist between members involved in the business
Div1	Family members involved in our family business have agreed on each other's roles or positions in the business
Div2	Family members involved in our family business have agreed on each other's positions of authority and responsibility in the business
Div6	Family members involved in our family business understand their specific roles and responsibilities

**THE LONGITUDINAL ENTREPRENEURIAL GENDER EFFECTS OF  
THE INNER CITY JOHANNESBURG  
STREET TRADING CONTEXT**

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# **THE LONGITUDINAL ENTREPRENEURIAL GENDER EFFECTS OF THE INNER CITY JOHANNESBURG STREET TRADING CONTEXT**

## **ABSTRACT**

This study investigates entrepreneurial gender effects within the inner city street trading context of Johannesburg, a large Southern African city. A cross sectional non parametric quantitative research design was applied in each of three consecutive years, 2008, 2009 and 2010. In this manner, a longitudinal investigation was enabled. Differences in earnings, rental stand operation, and the effects of specific and general human capital by gender are tested using non parametric Kruskal-Wallis methods. Further testing of the non parametric associations relative to each factor by gender was undertaken using non parametric Spearman Rho and Kendall Tau measures. Male traders are found to earn more. However, a return on specific and general human capital is found for female traders. Security threats in this context might have a disproportionate effect on female street traders, and most specifically on female street traders of foreign origin. Key words: Gender; Street traders; Entrepreneurial Development; Human Capital.

## **INTRODUCTION**

According to the tenets of human capital theory, human capital endowments, or the investments in learning of individuals, are typically associated with increased productivity (Becker, 1975). Such increases in productivity are expected to be associated with higher earnings, irrespective of arbitrary differences such as gender (Becker, 1975). “In every culture women and men are assigned disparate functions and patterns of behaviour well beyond those dictated by clear psychological differences” according to Marwell (1975:445), and ascription theory posits the existence of such assigned gender differences. Marwell (1975) argues that in a societal group that values skills above arbitrary differences, the gender differences according to functions or patterns of behaviour posited by ascription theory will have no function. According to Marwell (1975) gender differences that are not functional to the societal group will effectively reduce in a context where skills are scarce. According to these theorists work and earnings related gender

differences in a working world characterised by the scarcity of skills and human capital will diminish over time. However, a tension exists between the predictions of this body of theory and theory and empirical findings that support the notion that discrimination and gender disadvantages continue to plague female entrepreneurs and employees in enterprise contexts (Morrison, White and Van Velsor, 1987; Powell and Butterfield, 1994). However, across time, and in different contexts, changes toward gender parity are evident in the literature (Igbaria and Baroudi, 1995; Powell and Butterfield, 2002). Moreover, a further change is also evident from a review of the education literature: the increasing dominance of female students in higher education uptake (Nhantsi, 2010; U. S. Department of Education, 2007) and in certain educational aspects in certain international contexts (Demie, 2001) and in the South African context (Nhantsi, 2010). The extent to which gender related change in the structure of earnings and human capital in the sector reflects changes in the broader societal context is therefore the focus of this research.

## **PURPOSE/OBJECTIVES OF THE STUDY**

The objective of this research is to test theory that relates changes in the gender effects associated with differences in associations of human capital with context. In this manner, this research aims to extend gender and human capital theory (Becker, 1975) into the Southern African informal street trading context for testing. The overarching aim of this research is to make an incremental contribution to knowledge of gender effects in the developmental context in terms of a modest extension of theoretical and practical knowledge of the sector at a current point in time. It is argued that the informal sector is under-researched. It is further argued that if research can enable the upliftment of certain of the people that labour in this context under conditions of extreme resource constraint then such research would make a salient practical contribution.

## **PROBLEM STATEMENT**

Despite literature that relates the gender dimension of human capital related change to certain international and South African contexts, absent from the literature is literature that investigates

this change at the nexus of entrepreneurial development and the fringes of informal enterprise: the informal street trading sector. To the extent that individuals with almost no resources can access the informal sector, this sector can represent an entrepreneurial training ground, or a development platform that can enable enterprise development, as a structural path to potential formal ventures (De Soto, 1989). This sector therefore might have a societal developmental role to play. However to the extent that this sector is nested within the broader societal and international societal context, gender changes in the overarching context are expected to transmit to some extent to this context. In the absence of literature that relates the human capital related interrelationships of this sector to differences by gender, knowledge of how these effects might contribute to development is scant. If ascription is declining on a global basis (Marwell, 1975), what is not clear is the position of female traders within the Southern African informal street trading context. What are also not clear are the implications of such gender changes, or the implications of the absence of such changes, in this context. Therefore this research aims to address the following questions: to what extent are changes in the relationships around gender manifested in the current informal entrepreneurial context? And more specifically, what are the changes associated with endowments of human capital by gender in this context? Therefore an investigation into gender related changes in earnings, access to resources such as rental stands, the effects of specific human capital and general human capital, and changes in the underlying human capital factor structure of the sector over time is undertaken. The study applies an exploratory quantitative cross sectional correlation design. Longitudinal insight is drawn from the process.

## **THEORY AND RESEARCH LITERATURE**

If entrepreneurship is fundamentally the pursuit of opportunity, then such opportunity is a necessary condition for entrepreneurship, and the individual is the focus in the operationalisation of opportunity (Shane and Venkatataman, 2000). The environment or context is also critically important as an individual engages with opportunity (Zahra and Dess, 2001). Stevenson and Jarillo (1990) argue that entrepreneurship is fundamentally associated with learning. General human capital in the form of formal education might be expected to facilitate further specific human capital learning that contributes to an entrepreneur's learned adaptation to context.



Entrepreneurial behaviours are associated with increased earnings or other entrepreneurial outcomes to the extent that they match the specific context that an entrepreneur finds himself or herself in (Lumpkin and Dess, 1996). This research therefore focuses on potential constraints to earnings and differences in the associations around human capital in this context by differences in gender. Further theory and research literature is considered and hypotheses are derived as follows.

## **HYPOTHESES**

Previous research has indicated that in the greater Johannesburg street trading sector, male and female traders are similarly represented (O'Reilly, 2004). Situated at the nexus of transport nodes and high density residential areas, the informal street trading sector is a space characterised by a high density of traders. Traders are also vulnerable to theft and other security related constraints to their development (ESSET, 2007). The Johannesburg inner city street trading population is expected to exist not in isolation, but within a larger societal and global context, in which gender-roles might possibly be changing (Hausmann, Tyson, and Zahidi, 2009). Entrepreneurship behaviour is a function of gender roles, which in turn might be a function of culture, (Mueller, 2008). Gender differences in terms of gender related cultural effects have been found at both the societal and the organisational level (House, Hanges, Javidan, Dorfman and Gupta, 2004). According to Emrich, Denmark and Den Hartog (2004), the economic competition perspective of the relationship between gender and economic growth stresses that despite gains made in female economic participation, clustering occurs in certain areas of the economy such as service and communication (ibid.). Therefore economic growth might typically proceed along stereotypical gender roles and „pink collar“ ghettos might arise (ibid.). It might be relevant to explore the extent to which the informal sector might be a space in which such clustering occurs, whether by male or by female traders.

Kanter (1975) stresses that proportions, or the relative numbers of people in a group that differ socially or culturally, can influence the interaction dynamics of groups. Differences in earnings in this context might to some extent be possibly ascribed to discrimination. Powell and Butterfield (1994) stress that certain sex discrimination theories are associated with decisions

that prioritise social certainty. Rational bias theory contends that discrimination can be rational, whereby intentional bias is seen to be in the interests of those discriminating (Powell and Butterfield, 1994). Furthermore, such bias can extend beyond the conscious, as unconscious bias can influence judgements, including stereotypical conceptions (Powell and Butterfield, 1994). Increasing diversity in work contexts is underpinned by a fundamental tension: between the preference of the individual for homogeneity and the changes in demography that are associated with an inevitable trend toward greater heterogeneity (Tsui, Egan and O'Reilly, 1992). Gender differences have been found to be marginally associated differences in entrepreneurial orientation (Chow, 2006). Gender differences have also been found to be associated with differences in job commitment (De Clercq and Ruis, 2007) and with differences in the dimensions along which entrepreneurial persistence is associated with entrepreneurial choice (Gatewood, Shaver, and Gartner, 1995). Gender differences have also been found to be associated with differences in enterprise gender-role orientation, but not entrepreneurial self-efficacy (Mueller, 2008). Other research indicates gender differences in non-pecuniary motivation in enterprise contexts (Burke, Fitzroy and Nolan, 2002). However, certain differences between the genders in terms of enterprise effects might be due to the effects of culture (Mueller, 2008) and these effects may be context and culture specific. The implication of this is that if certain aspects of female enterprise behaviour are constrained by culture, then if the influence of such a culture decreases over time or contexts, then these constraints will be expected to reduce.

Women face higher business failure rates according to Robb (2002). On the basis of the potential relative vulnerability of female traders to crime or security issues, and on the basis of other challenges that might exist for female entrepreneurs that may have resulted in findings of higher business failure rates or lower earnings, it is hypothesised that *levels of earnings differ significantly according to gender* (hypothesis one). Female traders are expected to earn less, and be more relatively dissatisfied with continuing in street trading if this were to be found to be a discriminatory context. If, at the lower levels of access to resources, female traders are exposed to a discriminatory context, reflected in lower levels of access to financial resources, female traders would be expected to have less access to financial capital, and might be less likely to be able to afford rental stands. It is therefore hypothesised that *differences in rental stand operation rates will differ according to gender* (hypothesis 2). However, if enterprise behaviour is

considered to be „nested“ within the broader societal milieu, then it might be expected that the broader society might have an influence upon the enterprise behaviour within it. In a similar manner, the changes in the broader society might eventually be expected to be transmitted to contexts such as the informal street trading context. Evidence has been found of the transmission of societal gender related cultural practices and values to the organisational level (House et al., 2004). Therefore potential changes in gender effects at the level of society are deemed to potentially be relevant to the gender effects of the informal street trading context. Two areas in which an overarching trend in gender change seems to be increasingly evident is in societal gender gaps, and in learning, or educational effects.

A measure of changes in society along the dimension of societal gender gaps has been developed, and an example of such a measure is the Global Gender Gap Index (Hausmann, Tyson, and Zahidi, 2009). This measure indicates the size and extent of gender-based disparities or gender gaps in economic, political, or educational dimensions, which are published as statistics (Hausmann et al., 2009). According to the World Economic Forum Global Gender Gap Index, South Africa had improved to sixth spot in the world rankings by 2009 (Hausman et al., 2009). In 2010 South African ranked twelfth on this index (World Economic Forum, 2011). This is found to be a significant improvement on previous performances which was twenty-second in 2008 (Hausman et al., 2009). Iceland, Finland, Norway, Sweden, and New Zealand were the only countries placed ahead of South Africa in the 2009 rankings (Hausman et al., 2009). The index measures the extent to which economic participation and opportunity, educational attainment, health and survival and political empowerment contribute to gender equality (World Economic Forum, 2011). According to Becker's (1975) prediction, over time it is expected that exit rates of the sector would be related to general human capital endowments, and not to arbitrary characteristics such as gender.

However, if women are still underrepresented in formal work (Nhantsi, 2010), then despite the potential increase in opportunities for female street traders to leave street trading if that was their choice, for the formal sector, it would perhaps be expected that the playing field is not entirely even yet. Measures of changes over time might indicate overall trends in this regard. Therefore it is hypothesised that *time spent in the sector will differ according to gender* (hypothesis three).

Male traders might be more able to exit the sector if a discriminatory context does indeed exist. However, the broader societal context and also the informal context is expected to become less discriminatory over time according to Becker's (1975) argument. On a global basis changes in education effects seem to indicate that in certain countries a dominance by males have given way to dominance by females. In the context of the United Kingdom, Demie (2001) found that females out-perform males in certain school-based educational provision, at all key stages in some, yet not all, school subjects. Demie (2001) found that these effects manifested irrespective of ethnicity. However, Demie (2001) did not investigate these effects by social class factors. In the United States, African-American adult males that grow up with more sisters have been found to achieve higher levels of education (Kaestner, 1997). Before 1989 males dominated bachelor degree and master degree qualifications graduation cohorts, yet after this period, female attainment has dominated (U. S. Department of Education, 2007). This might be taken to represent a „tipping point“ of sorts, whereby societal change might have manifested in this measure of human capital attainment. The female share of bachelor degree graduates has since risen from about 53 percent in 1989/1990 to about 57 percent for 1999/2000 and to approximately 57.5 percent for the period 2005/2006 (U. S. Department of Education, 2007). The same trend is evident in the attainment of master degrees, with a rise in female attainment from 52.6 percent for 1989/1990 to 55 percent for 1999/2000 and 59.95 percent for 2005/2006 (U. S. Department of Education, 2007). Changes have also been evident in the South African context. The South African government has supported the provisions of the Dakar Framework for Action, and the Education for All initiative in terms of strategies for gender equality (Nhantsi, 2010). However, in the South African labour market women are still not found to be equally represented in higher skills jobs or in jobs that are relatively more highly paid (Nhantsi, 2010). Yet in terms of educational attainment, the general trend seems to be towards female dominance. Female grade ten learners seem to be performing better than male learners in key competency tests according to the South African Department of Education (Nhantsi, 2010). More females are participating in higher education in South Africa (Nhantsi, 2010). South African higher education institutions report increases in female enrolment from 44 percent in 1993 to 51 percent in 1999, and to 54 percent in 2001 (Nhantsi, 2010). On the basis of these findings, it is hypothesised (hypothesis 4) that *endowments of higher education will differ by gender*. Over time, female traders are expected to be increasingly more educated, if the structure of

relationships within the informal sector does reflect the trends in the broader society. The changes in gender effects over time predicted in the literature are also expected to be reflected in demographic changes in the sector. Deriving from the above discussion, an implication arises: that the structure of interrelationships around gender that exist in the inner city informal street trading context might change to reflect the broader societal context of gender related interrelationships. On the basis of this conception, it is hypothesised that *the underlying associative factor structure of the interrelationships has changed over time in the sector* (Hypothesis 5). If this were occurring in reality, factor analysis processes would be expected to provide evidence of the changes in such gender associations in the sector over time. The methodology is considered as follows.

## **RESEARCH METHODOLOGY**

The study utilises an exploratory quantitative cross sectional design. However, three studies provide three sets of data. This allows for a longitudinal perspective of the interrelationships around gender in this context. Three samples were drawn from the population of inner city Johannesburg street traders, one each for the years 2008, 2009 and 2010. An area of approximately 224 city blocks was identified to capture the inner city context, separate from the adjacent more residential, industrial and transport oriented blocks. Random sampling was used in order to select about ten percent of these blocks: twenty-three blocks. The street traders operating on the sides of these blocks were counted. On the basis of this number, a broad estimate of the inner city street trading population was obtained: of about 5200 traders. A sample size calculation was used to ensure that the sample sizes were sufficient in terms of the principles of inferential statistics.

The samples comprised 339, 309, and 303 traders for the years 2008, 2009 and 2010 respectively. Piloting was undertaken in order to ensure validity and reliability in the design of the items of the instrument. Attempts at random sampling were confounded by refusal rates, which due to ethical principles were unconditionally accepted. Therefore claims are made on the basis of convenience sampling. However, it is argued that with almost six percent of the population sampled each time, and with a longitudinal anchor, the results are generalisable to

similar segments of street trading populations to the extent that these other populations are similar to this context. Scales were developed. Questionnaire items included nominal, interval and ratio data (Stevens, 1946). The research design was built around tests considered appropriate for the testing of the hypotheses. The first choice of methods was parametric testing. However, non parametric alternatives were planned in case the univariate analysis failed to demonstrate that the assumptions of the parametric tests could be met.

### *Univariate analysis*

A univariate analysis was performed on the 2010 data in order to ascertain to what extent the most recent data could support parametric testing. According to an overview of the literature relating to recent developments within the sector, the 2008 and 2009 data was considered to possibly reflect the influence of the xenophobic events of 2008. For this reason the 2010 data was considered central to an understanding of the current relationships of the sector. Whatever tests the 2010 data were found to support would be used across the three data sets.

In terms of the analysis of the 2010 data, the central tendency and the dispersion characteristics of the data are reported in table 1. An inspection of the histogram plots for each continuous variable was used to check for normality. The potential presence of bimodal distributions was checked visually. Probability-probability (P-P) and quantile-quantile (Q-Q) plots were run, and each variable was checked for variance about the lines in these plots. Outliers and pattern deviations from these lines were noted. Tests were also run for skewness and kurtosis in the data. The results of these tests are reported in table 2. Skewness values that differed from zero, either to the right or to the left, and kurtosis values that varied from three were taken as further indicators of non normality. The Shapiro and Wilk test W statistic for each variable was checked for each of the non binary variables. The results of these tests are also shown in table 2. According to the Shapiro Wilk test, the nine continuous variables were found to return significant W values, in spite of some of these having values close to one. The sample size of the sample (n=303) fell into the range considered appropriate for the Shapiro-Wilk test, of between seven and two thousand data points. The Kolmogorov-Smirnov (KS) test of the D statistic was also applied. The SAS procedures also offered the Cramer-von Mises and Anderson-Darling tests. The results of these tests offered further support of the findings of the Shapiro-Wilk test, as these tests were also significant for the variables tested. The comparative means by sample and

gender are reported in table 3. The tension between Type I and Type II errors, although reasonably robust to severe deviations from intervalness in many parametric measures (Jaccard and Wan, 1996:4), was not a problem for the non parametric measures applied. However, it is acknowledged that a cost is associated with the use of non parametric measures, as results might have less power and might be more conservative. Thus the process might err on the side of conservativeness. Nevertheless, it is argued that the methods are appropriate for such an analysis, and that such conservativeness is perhaps appropriate for testing in this context. On the basis of the results of the univariate testing, the non parametric alternative tests were used.

### ***Bivariate Analysis***

Within the discussion of the hypothesis testing, bivariate results are also reported and discussed. The data comprised nominal, ordinal and interval items (Stevens, 1946). Kendall's Tau B statistical tests were run on the associations where one or both of the variables were binary. Spearman's Rho tests were run on the associations between continuous variables. The bivariate tests are used to support the discussion of the results of the hypothesis tests. The results of the bivariate analysis of the associations of earnings are reported in table 5. These findings are utilised to support the overarching analysis associated with the processes of the hypothesis testing.

### ***The Testing of Hypotheses***

On the basis of the types of data, and the results of the univariate tests, non parametric tests of difference were applied. One way non parametric ANOVA was utilised for hypotheses testing. The Kruskal-Wallis results of this process of testing are reported in table 4. Hypotheses one through four were tested through the use of Kruskal-Wallis tests. Hypothesis 5 was tested through an analysis of factor analysis outputs.

### ***Measures and Scales***

Gender, South African origin, Johannesburg origin, training attendance and rental stand operation were all measured as binary variables. Age, years in Johannesburg, hours worked per day, days worked per week, years of total education, years of experience, and gross earnings

were measured as continuous variables. However, because non parametric testing was used, these were taken to represent ranked or ordinal data (Stevens, 1946).

All of the appropriate variables were subjected to an exploratory descriptive factor analysis using principle components analysis. In order to descriptively summarise the data into its core underlying dimensions factor analysis was chosen. On the basis of differences in the factor relationships by gender over the years 2008, 2009 and 2010, hypothesis 5 was tested. Six factor analyses were run, for male and female samples over these three years. Table 6 reports the factor loadings of the different factor analysis models. The assumptions underlying exploratory factor analysis were checked. Scatterplots were run to check the assumption of linearity between variables. In certain cases the plots seemed ambiguous with regard to linearity and all the variables were investigated further. Each factor analysis was checked for Pearson correlations with inter-item correlations of above .5, which were taken as an indicator of adequacy. Similarly, the anti-image correlation matrix diagonals were checked values of over .5, which was found for almost all of the diagonal values. The other measures of sampling adequacy (MSA): the Kaiser-Meyer-Olkin (KMO) values and the Bartlett's tests of Sphericity approximate Chi-squared statistics were checked for significance ( $p < .05$ ). Sampling was therefore considered to be adequate if on the basis of this process. In each case a varimax rotation was applied, with a Kaiser normalisation. Ten items were used against 303 cases. This ratio was deemed adequate for the requirements of factor analysis. The communality statistics were checked for values over 1.0, as an indicator of too many or too few factors in the model.

The factor analysis process was used descriptively, to summarise the relationships between variables. No further process of confirmatory factor analysis was performed. As such the process of factor analysis did not require a detailed analysis of univariate, bivariate and multivariate normality (Tabachnick and Fidell, 2007).



**TABLE 1****Univariate Analysis Measures of Location/Central Tendency and Dispersion**

Variables	Mean	Median	Mode	Variance	Standard Deviation	Range	Interquartile range
Age	34.14	32	27	105.39	10.27	56	13
Years in Johannesburg	10.79	8	3	94.62	9.73	52.8	13
Hours worked per day	10.70	11	11	3.82	1.95	14	2.5
Days worked per week	6.36	6	6	.566	.752	7	1
Initial investment	1179.41	650	350	1651019	1285	6999	1200
Total education	9.94	11	12	12.16	3.49	17	4
Experience	6.44	5	1	21.71	4.66	14	8
Continuance satisfaction	6.77	8	9	6.58	2.56	12	5
Earnings	351.6	230	900	76090	275.84	870	370

Note: mean median and mode are tested using SAS. Skewness, kurtosis and Shapiro Wilk measures are SPSS output.

Due to the differences in the measurement scales of different items of the factor analysis, these tests are conducted using correlation matrices. On the basis of information garnered from initial piloting, earnings are measured as gross earnings, and not as net earnings. It was not possible to obtain reliable information on net earnings within the constraints of time and cost of this study. For the 2008 and the 2009 data, the responses for earnings are capped at six hundred and ninety rand per day. In the 2010 data the responses are capped at eight hundred and ninety rand per day. Experience is measured as years spent in street trading. Total Education is measured as years of completed education. Initial investment is measured as the amount of cash invested in the enterprise at start-up. Hours worked per day and days worked per week are measured as such. Rental stand is a measure of whether a trader operates a City Council provided rental stand. Age is measured in years. This research design is associated with certain limitations. The quantitative nature of the research cannot support claims that are causal in nature. Further, the range of tested relationships was derived from the literature. Qualitative research undertaken in this context might in future offer other factors relevant to an investigation of gender effects in the sector. Another limitation of the study is that the majority of traders in Johannesburg can be understood as survivalist rather than entrepreneurial. As such many of these traders would leave street trading if afforded the opportunity of formal employment. The results of the process of statistical testing are reported, and also discussed, as follows.

*Null hypothesis 1: there is no significant difference in earnings by gender*

According to the Kruskal-Wallis tests, at the five percent level of significance there is a significant difference in earnings between the sexes for the years 2008 and 2010 (table 5). The 2009 data also reveals a difference, yet just outside the five percent level of significance. From these findings the null hypothesis is rejected, and the alternative hypothesis is accepted. In 2008 male traders are found to earn more than female traders, almost sixteen percent more. In 2009 the difference is barely significant. However, in 2010 male traders are found to earn about thirty-eight percent more than female traders. This might indicate that gender inequality is a long term feature of the inner city street trading context.

**TABLE 2**  
**Univariate Analysis Measures of Normality**

Variables	Skewness	Kurtosis	Shapiro-Wilk W
Age	0.65	-.01	.962***
Years in Johannesburg	1.41	1.85	.855***
Hours worked per day	.14	.63	.987**
Days worked per week	-1.75	7.93	.724***
Initial investment	1.93	3.32	.742***
Total education	-1.01	.89	.899***
Experience	.60	-.90	.888***
Continuance satisfaction	-.39	-1.18	.770***
Earnings	.95	-.45	.0001***

Note: measures are tested using SAS

Another candidate for an explanation of this phenomenon might be the influx of males of foreign origin into the sector, who according to the findings of this study (i) typically invest more into their enterprises at start-up (table 3) and (ii) might therefore earn more because of their higher capital investments (table 3). Besides this cluster, the sector, however, might be considered to be segmented into a category of more survivalist traders, and a category of more entrepreneurial traders (Callaghan and Venter, 2011). To the extent that female traders are found to earn less in this sector, female traders might be more likely to be exposed to a context that has a different structure of relationships associated with lower levels of earnings.

**TABLE 3**  
**Means by year: Female/Male**

Variables	2008	2009	2010
Earnings	148.22/171.26*	264.95/260.68	285.26/392.73***^^
Experience	4.54/4.03	7.92/4.88***	8.01/5.48***
Total education	3.05/3.39*	9.48/10.52***	9.08/10.47**
Initial investment^^	355/480**	296/450***	926/1336***^^
Hours worked per day	10/10.26	10.17/10.62*	10.41/10.87*
Days worked per week	6.13/6.24	6.38/6.35	6.28/6.40
Age	33.9/31.8	35.2/29.54***	38.7/31.32***

Notes: ^^ indicates upper limit to measure ^^ indicates different upper limit to measure therefore not comparable to other data sets. 2008 data female n=142; male n=190; 2009 female n=103; male n=205; 2010 female n=116; male =185. Significance: p<0.05\*; p<0.01\*\*p<0.001\*\*\*p<0.0001\*\*\*\*. Significance reflects Kruskal-Wallis tests.

To the extent that female traders are found to earn less than male traders, this finding might also support previous research that indicates constraints to female enterprise performance (Rob, 2002). Placing the gender changes in the sector within the broader societal gender trajectories, gender differences seem to be widening in this specific sector along the dimension of earnings. The predictions of Becker (1975) and Marwell (1975) are not found to be supported in terms of the gender differences associated with gross earnings in this sector. Constraints akin to a „glass ceiling“ (Morrison et al., 1992) and inequality (Powell and Butterfield, 1994) in terms of earnings are possibly reflected in the empirical findings. The entrepreneurial development of female entrepreneurs requires the active participation of the individual (Shane and Venkataraman, 2000) and some kind of interaction with the specific entrepreneurial context (Lumpkin and Dess, 1996; Zahra and Dess, 2001). If the context of street trading is associated with factors that constrain entrepreneurial performance, then female traders might be trapped within a discriminatory context. However, if females earn less due to a relative effect, such as an influx of male traders of foreign origin with greater resources, then further research might offer further insight into the relative strengths of these effects. For the purposes of gaining a further understanding of these differences the significant associations of earnings that differ according to gender are reported and discussed as follows.

**TABLE 4****Gender Kruskal-Wallis: Chi-square statistic/degrees of freedom/significance**

Variables	2008	2009	2010
Earnings	<b>4.93/1/p&lt;0.0264</b>	0.057/1/p<0.0811	<b>12.45/1/p&lt;0.0004</b>
Experience	0.979/1/p<0.3224	<b>23.62/1/p&lt;0.0001</b>	<b>19.08/1/p&lt;0.0001</b>
Total education	<b>5.422/1/p&lt;0.0199</b>	<b>13.23/1/p&lt;0.0003</b>	<b>10.50/1/p&lt;0.0012</b>
Initial investment	<b>10.830/1/p&lt;0.001</b>	<b>25.90/1/p&lt;0.0001</b>	<b>10.51/1/p&lt;0.0012</b>
Hours worked per day	1.0392/1/p<0.308	<b>4.064/1/p&lt;0.0438</b>	<b>4.150/1/p&lt;0.0416</b>
Days worked per week	3.7575/1/p<0.0526	0.1364/1/0.7118	3.05/1/p<0.0808
Rental Stand	3.7474/1/p<0.0529	0.079/1/p<0.7786	1.22/1/p<0.2688
Age	3.139/1/p<0.0764	<b>28.9/1/p&lt;0.0001</b>	<b>39.29/1/p&lt;0.0001</b>

Notes: 2008 data female n=142; male n=190; 2009 female n=103; male n=205; 2010 female n=116; male =185. Significant statistics are in bold.

According to the 2009 data male traders are found to earn more the longer they have been in Johannesburg, and the female variable is found to be significant within the ten percent level of significance. In the 2010 data, however, female traders are found to earn more the longer they have been in Johannesburg (table 5). This effect is not significant for male traders in the 2010 data. Currently, females might be more likely to increase their earnings with time in Johannesburg. If the broader Johannesburg context reflects the societal changes that reflect in a closing of the gender gap at the societal level (Hausmann et al., 2009), then it might be possible that female entrepreneurs in the sector might be able to transcend certain constraints with more time spent in Johannesburg. Male traders that are of foreign origin are found to earn significantly more than male traders of local origin in the 2008 and 2010 cases. This effect is found to be insignificant for female traders for these years. A notable exception to this trend is the case of 2009. The xenophobic disruptions that occurred in the city centre in 2008 might have influenced the relative earnings of traders of foreign origin versus traders of local origin. Such an effect might explain the case of 2009 where female traders of local origin earn significantly more than females of foreign origin. In 2009, unlike the case in 2008 and 2010, male traders of local origin are also found to earn more than traders of foreign origin, yet this effect is only found to be significant at just within the ten percent level of significance. These findings suggest that the xenophobic violence of 2008 might have had an effect lasting until about 2010. Alternatively,

this evidence suggests that some structural change might have occurred between traders of local and foreign origin over this period.

**TABLE 5**  
**Earnings: Spearman Rho (SR) and Kendall Tau (KT) coefficients Female/Male**

Variables	2008	2009	2010
Earnings with:			
Training attendance(KT)	0.131 <sup>^</sup> / -	0.285 <sup>***</sup> /0.143 <sup>*</sup>	
Age		- / 0.239 <sup>***</sup>	
Years in Johannesburg		0.180 <sup>^</sup> /0.256 <sup>***</sup>	0.250 <sup>**</sup> / -
SA origin (KT)	- /-0.119 <sup>^</sup>	0.275 <sup>***</sup> /0.133 <sup>^</sup>	- / -0.221 <sup>***</sup>
Johannesburg origin	0.143 <sup>^</sup> / -	- / 0.117 <sup>^</sup>	
Hours worked per Day	0.211 <sup>*</sup> / -	0.314 <sup>**</sup> /0.180 <sup>*</sup>	0.206 <sup>*</sup> / -
Days worked per Week	0.140 <sup>^</sup> / -	0.234 <sup>*</sup> /0.220 <sup>**</sup>	
Initial Investment	0.276 <sup>***</sup> /0.326 <sup>***</sup>	0.280 <sup>**</sup> /0.403 <sup>***</sup>	0.265 <sup>**</sup> /0.404 <sup>**</sup>
Total Education	- / 0.121 <sup>^</sup>		0.274 <sup>**</sup> / -
Tertiary Education (KT)			0.178 <sup>*</sup> / -
Experience	0.217 <sup>**</sup> /0.121 <sup>^</sup>	- /0.304 <sup>***</sup>	0.244 <sup>**</sup> / -
Rental Stand (KT)		0.229 <sup>**</sup> /0.246 <sup>***</sup>	
Continuance satisfaction		0.211 <sup>*</sup> /0.257 <sup>***</sup>	0.264 <sup>**</sup> /0.222 <sup>**</sup>

Notes: 2008 data female n=142; male n=190; 2009 female n=103; male n=205; 2010 female n=116; male =185. Significance: p<0.05\*; p<0.01\*\*p<0.001\*\*\*p<0.0001\*\*\*\*. All tests are Spearman Rho unless indicated (KT) in which case the test statistic is Kendall's Tau.

In 2008 female traders are found to comprise about 30 percent of traders of foreign origin yet about sixty percent of traders of local origin. However, after the xenophobic events of 2008, in 2009 females are found to make up only 25 percent of traders of foreign origin and about 45 percent of traders of local origin. In 2010 female traders again make up about 30 percent of traders of foreign origin, yet make up about 51 percent of local traders. If the xenophobic violence were to have imposed a cost upon traders in this sector, the incidence of such a cost might have been borne disproportionately by female traders.

Female traders that work more hours a day earn more in all the sampled years. However, male traders that work more hours a day only earn more in the case of 2009. Female traders typically work less hours and less days a week. This is one specific dimension of a constraint that might

be seen to represent a specific form of „glass ceiling“ to the earnings of female street traders (Igbaria and Baroudi, 1995). The inherent vulnerability of women in this sector to physical threat, stock theft, or intimidation by other traders on the basis of physical threats (ESSET, 2007) might expose women disproportionately to certain harmful effects in this context. Improved security on the part of city authorities might shield women traders from certain of these effects, which might be construed as effective discrimination on the part of the informal context itself. The larger coefficients found for the Spearman Rho associations between initial investment and earnings for male traders might suggest that males obtain a higher return on their capital investments on entering the sector. If these higher returns accrue to male traders more than female traders because they are more resistant to theft, which is prevalent in this specific sector (ESSET, 2007), then this would be another source of gender inequality in the sector. The trend toward an increasing engagement with education, or education related outcomes for females (Demie, 2001; Kaestner, 1997; Nhantsi, 2010) is found to be evident in the 2010 data for the first time, as females with more years of education are found to earn more. This effect, interestingly enough, is not found to be significant for male traders. A significant association between tertiary level education and increased earnings is also found only for female traders.

The analysis of the 2009 data reveals significant associations between attendance of training since entry into the sector and higher earnings. Street trader skills“ training has been found to be associated with higher levels of earnings (Callaghan and Venter, 2010). This effect might be due to a benefit from the trading itself, or might alternatively also be due to traders with more financial resources being able to, or being more likely to attend the training (ibid.). The effect found for 2009 is larger and more significant for female traders than for male traders. Furthermore, the 2008 data indicate that female traders that have attended training earn more, although this effect is found to be significant at just within the ten percent level of significance. These empirical findings support the notion that the trend toward female dominance of higher education achievement in terms of gross graduations or enrolments (U. S. Department of Education, 2007; Nhantsi, 2010) is also reflected in the relationships around female education in this sector. It is suggested that further research investigate this effect. To the extent that females are found to reflect a return on human capital, it is argued that according to this dimension, the arguments offered by human capital theory (Becker, 1975) and the argument of Marwell (1975)

find qualified support. It is reasonable to expect that if the gender gap in earnings in this sector were to be narrowing, then this might be due to the learning effects of entrepreneurial development (Stevenson and Jarillo, 1990) which may be driven by education effects and human capital. Experience, or time spent in the sector is also found to be significantly associated with higher earnings only for female traders in 2008 and in 2010. However, only male traders that have been in the sector longer are found to earn more in 2009. If the 2009 effect is atypical, and the 2008 and 2010 effects do represent the basic underlying trend in the sector, then it might be possible that female traders reflect a different operationalisation of specific human capital. According to Becker (1975) human capital can be differentiated into general human capital which is transferable across contexts, and specific human capital which is less transferable and is typically associated with learning specific to a certain job or context. In this case, these empirical findings seem to indicate that the learning that might be associated with specific human capital, or experience in this sector might accrue to female traders only. If this were so, then this would support the overarching trend that seems to be evident in the increasing educational attainment of females (U. S. Department of Education, 2007; Nhantsi, 2010). The informal entrepreneurial activity of female traders is therefore found to be associated with higher earnings to the extent that female traders have higher levels of both general and specific human capital. Further research is suggested with regard to the mechanisms that might underpin this gender effect.

According to Tissington (2009) many traders in this context make their decision of what to sell on the basis of their ability to escape stock seizure by the authorities. Operating a rental stand is significantly associated with higher levels of earnings for both male and female traders in 2009, but not in 2008 and 2010. This might possibly indicate that after the xenophobic violence increased policing or other consequences of these events might have decreased the earnings of traders without rental stands relative to those with rental stands. Gender differences associated with rental stand operation are considered as follows.

*Null hypothesis 2: there is no significant difference in rental stand operation by gender.* On average, male traders are found to operate relatively more rental stands than female traders. The Kruskal-Wallis tests, however, indicate that these differences are not significant in any of the years sampled. The null hypothesis is not rejected. The significant associations of rental stand operation not considered in the above sections are reported and discussed as follows. Male

traders operating rental stands have attended more training in 2009 and 2010. Female traders of the 2009 sample operating rental stands are found to be more likely to have attended training. This finding might possibly suggest that traders that rent stands might be more likely to be approached or contacted and given information about training opportunities offered by the city. Training attendance, age, and years spent in Johannesburg might influence rental stand access through informational advantages or other factors as yet not evident in this research. Female traders of South African origin and Johannesburg origin are found to be significantly more likely to operate rental stands in 2009. In the other years, and for male traders over these three years, these associations are found to not be significant. Operating a rental stand might have an influence upon a trader's fundamental experience of street trading. As already indicated, other researchers have found that street traders in the Johannesburg inner city context report that their choice of product offering is based upon their ability to carry the stock to avoid police confiscation (Tissington, 2009). According to these findings, it is argued that the operation of a rental stand might be associated with a substantively different experience of street trading itself. If constraints to the relative security offered by rental stand access are not typically gender based, then this is a positive finding. A further sample from the inner city was taken (n=78), in order to ascertain if the effect of stock confiscations were potentially significant with regard to earnings. The number of times a female trader had their stock confiscated was found to be significantly and negatively associated with gross earnings ( $\beta = -28.06$ ;  $p < 0.0006$ ) in a multiple linear regression model holding other factors constant. Despite the significant and negative association found for the female sample (n=34), for the sample of male traders (n=44) stock confiscation was not found to be significantly associated with earnings. Due to the smaller sample size of this sample, these findings are qualified, and are reported for the purposes of further insight. Notwithstanding this, if female traders were to be disproportionately exposed to the impact of by-law infringement on the basis of not being able to afford rental stands, then this would be yet another unequal relationship within the structure of earnings related processes in the sector. It is therefore argued that traders that operate stands rented from the local government are effectively shielded from certain of the negative effects of such a lifestyle. However, rental stands are perhaps not affordable for many street traders. The limited numbers of rental stands are perhaps another constraint for the majority of traders. The tested effects of time spent in the sector in relation to gender are reported and discussed as follows.



*Null hypothesis 3: there is no significant difference in time spent in the sector (experience) by gender.* According to the Kruskal Wallis testing, experience or years spent in the street trading sector is found to differ significantly according to gender in the 2009 and the 2010 data. On the basis of this trend in the data, the null hypothesis is rejected, and the alternative hypothesis is accepted. Female traders are found to report spending more time in the sector than male traders in all the three years. Differences in the associative relationships of experience by gender are now reported and discussed in order to better understand the structure of the relationships around gender and time spent in this sector. Age, years in Johannesburg and South African origin are found to all be positively associated with time spent in the sector in all three years for both male and female traders. Males that are of Johannesburg origin are found to be in the sector longer in 2009. However, this effect is not significant for 2008 or 2010. This might possibly suggest that relatively more traders not of Johannesburg origin might have temporarily left the sector after the xenophobic disruptions. These findings might suggest that gender related effects need to be considered in terms of a significant phenomenon in the sector: the possibility that the sector is being used by younger males as a more temporary means of entering Johannesburg and accessing the opportunities associated with the city. An interesting finding is that for female street traders there is a negative association between initial investment and time spent in the sector (albeit at just below the ten percent level of significance), suggesting that female traders that could perhaps afford to invest more in their enterprises might have been more likely to have left the sector. The alternative explanation is that a relatively larger and relatively more recent influx of female traders with higher levels of initial investment might have occurred. For the male sample, the possible explanations are the reverse of these, as the sign of the variable is positive. However, the association of the male sample is found to be significant to within the five percent level of significance. The association between education and time spent in the sector is discussed in the following section. Results associated with the testing of differences between education levels by gender in this context are considered as follows.

*Null hypothesis 4: there is no significant difference between levels of total education by gender.*

Total Education is found to differ significantly by gender in all three years. The most significant difference is found in the case of the 2009 data. The null hypothesis is rejected, and the alternative hypothesis is accepted. The trends in significant associations of total education that

differ by gender are reported and discussed as follows. Males are found to have higher endowments of education in this sector over this three year period. This finding confounds the trend that has emerged in different educational contexts whereby females are beginning to dominate aspects of educational attainment (Demie, 2001; Nhantsi, 2010). Age, years in Johannesburg and South African origin are found to be negatively associated with total education for female street traders for the 2008, 2009 and 2010 samples. These findings might suggest that for the female sample younger traders are more educated. Female traders of foreign origin and female traders that have entered Johannesburg relatively more recently might have relatively higher endowments of education. The shorter tenure of more educated female traders, which is a stronger effect than that for male traders, indicates that higher levels of education might be enabling exit from the sector. It is possible that the formal sector is „pulling“ more educated traders from the sector according to this finding. It is possible that this effect is favouring women. However, such a „pull factor“ might favour women if most of the male traders are of foreign origin and face certification and legal barriers to formal employment.

*Null hypothesis 5: there is no substantive difference in factor structure of the associations of the sector with gender over time.* The similar pattern of loadings of factor one seems to reflect an underlying commonality in the data across the years 2008 and 2010. Factor two also reflects a commonality across 2008 and 2010, with schooling and tertiary education loading in 2008 and 2010, yet with initial investment and earnings also loading in 2010. In terms of the differences in the structure of relationships around earnings, for 2008 female traders earnings loads as factor three together with hours worked, initial investment and continuance satisfaction. Similarly, the male sample displays the same basic structure, with earnings loading with initial investment and continuance satisfaction, also as factor three. In 2009 earnings loads as factor two with initial investment and days worked for both female and male samples. For the female sample hours worked also loads on this factor, as does continuance satisfaction for the male sample. In the 2010 data, earnings load with initial investment and the educational factors as factor two. However, for the male sample earnings load as factor three with initial investment and continuance satisfaction. On the basis of these changes, the structure of the relationships around earnings for female street traders seems to have changed. This change, toward more of an association between earnings and the education factors seems to reflect the changes in certain

aspects of educational effects in the broader international and local societal contexts. On the basis of these findings, hypothesis 5 is rejected. Conclusions and recommendations for further research are offered as follows.

**TABLE 6**  
**Factor analysis test results**

Variables	Factor 1	Factor 2	Factor 3	Factor 4
<b>2008</b>				
Female sample	Age	Schooling	Hours worked	Hours worked
	Experience	Tertiary education	Initial investment	Days worked
	Years in Jhb		Earnings	
			Continuance satisfaction	
Male sample	Schooling	Age	Initial investment	Hours worked
	Tertiary education	Experience	Earnings	Days worked
	Total education		Continuance satisfaction	
<b>2009</b>				
Female sample	Age	Hours worked	Initial investment	
	Years in Jhb	Days worked	-Continuance satisfaction	
	Experience	Initial investment		
	-Total education	Earnings		
Male sample	Age	Days worked	Hours worked	
	Years in Jhb	Initial investment	-Total education	
	Experience	Earnings		
		Continuance satisfaction		
<b>2010</b>				
Female sample	Age	Initial investment	Hours worked	
	Years in Jhb	Schooling	Days worked	
	Experience	Tertiary education	Initial investment	
	Continuance sat.	Total education		
		Earnings		
Male sample	Schooling	Age	Initial investment	Hours worked
	Tertiary education	Experience	Earnings	Days worked
	Total education	Years in Jhb	Continuance sat.	
	-Continuance sat.			

Notes: for the 2008 data n=339; 2009 n=308; 2010 n=302; and 2010a n=106. Significance: p<0.05\*; p<0.01\*\*p<0.10<sup>^</sup>. The 2010a data is from the supplementary data set.

## CONCLUSIONS AND RECOMMENDATIONS FOR FURTHER RESEARCH

This study attempted to explore the structure of relationships around gender of the informal street trading sector of a large Southern African city. Theory relating to earnings and gender was first tested. The predictions of human capital theory (Becker, 1975) and theorists such as Marwell (1975) were not found to be supported with regard to earnings of street traders. This difference between gender outcomes in this sector supports research that has found gender differences in entrepreneurial and organisational contexts to still exist (Burke et al., 2002; Meuller, 2008; Robb, 2002). The overarching reduction in the gender gap indicated by certain of the literature (Hausmann et al., 2009) that suggests that gender inequality is reducing was therefore not found to be supported in terms of earnings in this sector. In fact males were found to earn significantly more than females in this sector. This gap is found to be increasing. The effects around general human capital and gender were then investigated. Female traders were found to demonstrate a significant association between earnings and proxy measures of both specific and general human capital. On the basis of the findings, it is argued that the overarching trend of some kind of gender difference in favour of female traders associated with learning or education might also be present in this context (Demie, 2001; Hausmann et al., 2009; Kaestner, 1997; Nhantsi, 2010; U. S. Department of Education, 2007; World Economic Forum, 2011). The significance of this association is taken to reflect important gender related changes in the sector. Further research might offer insight into the mechanisms that underlie this gender effect. Such knowledge might be of benefit for male and female traders alike. These findings indicate that the trajectory of gender differences associated with lower earnings of female traders might in time be off-set by the more effective or efficient operationalisation of specific and general human capital of female traders. This evidence is broadly taken to support the hypothesis of human capital theory (Becker, 1975) that learning related investments of human capital that increase productivity are associated with higher earnings which will over time make arbitrary differences such as those of gender less important. It is further argued that two primary gender related clusters exist in the sector akin to the predictions of the economic competition perspective of gender development (Emrich et al., 2004). Younger and more educated male traders of foreign origin that stay in the sector for shorter periods were found to comprise one core cluster type. Relatively older female traders of local origin that stay longer in the sector were found to comprise another. It is

concluded that the former cluster might account for a certain amount of the difference in gender earnings in the sector, yet that physical security concerns might dominate the character of the sector. The latter effect might pose a fundamental challenge to female traders that might be more vulnerable to these contextual effects than male traders.

## **RECOMMENDATIONS FOR PRACTICE**

On the basis of the findings, certain recommendations are suggested. Increased security in the city centre might reduce the unequal exposure of female traders to the significant constraint posed by security concerns. This would enable female traders to have equal choices regarding hours and days worked. The xenophobic effects of 2008 might have had a disproportionate effect upon female traders. Policy makers and political leaders might proactively create a space of tolerance in the broader society. Any societal violence might disproportionately affect females that are relatively more vulnerable to such effects. If female traders were to be disproportionately exposed to the earnings impact of by-law infringement on the basis of not being able to afford rental stands, then policy maker interventions might be justified. More trading stalls, provided on a gender equitable basis might lessen potential inequality in this regard. To the extent that female traders are associated with a more substantial return on specific and general human capital, the increased provision of specific skills training might enable a reduction in the gender gap in the sector. If females are more actively pursuing their human capital development, this might be a focus for policy makers. Such a focus might provide a productivity mechanism whereby the gender gap might be reversed across contexts. These measures might enable female traders to avoid the survivalist experience of street trading and to access the entrepreneurial space of informal development.

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# THE NATURE OF NETWORKING BY SMALL AND MEDIUM ENTERPRISES: A STUDY OF THE SERVICE SECTOR IN SWAZILAND

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## **Key words and phrases:**

Networking by Swaziland SMEs in service sector, networking content, networking frequency, importance and structure of networking

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# **THE NATURE OF NETWORKING BY SMALL AND MEDIUM ENTERPRISES: A STUDY OF THE SERVICE SECTOR IN SWAZILAND**

## **ABSTRACT**

The research study aims to describe the importance, frequency, structure and content of networks engaged in by SME owners/managers in the service sector in Swaziland. The findings show that entrepreneurs actively engage in networking activities as the need arises.

There is evidence of networking with weak ties such as people from other businesses and with strong ties such as friends. Networking has been found to be useful in obtaining resources especially advice and information. Financial resources are least obtained through networking. Entrepreneurs also provide resources to others in business including family members, friends, colleagues and people from other businesses.

The nature of networking with the different actors was found to be influenced in some instances by the age of the respondent, gender, position in the business and the form of business.

## INTRODUCTION

It is widely acknowledged that networking for small business owners is crucial to the success of the business (Hoang & Antoncic, 2003:182; Kristiansen, 2004:1150; Le Roux & Strydom, 2006:254; Atterton, 2007:182). The core reason is that in the small firm, the knowledge base as well as the accessibility to resources is limited to the competencies of the owner. There is need for the owner to have access to a context that can enhance these competencies (Kristiansen, 2004:1153). Networks have been found to be the means by which entrepreneurs mobilise resources needed to start and run a business. Cruickshank and Rolland (2006:73) found that networks are essential to establishing a business and building social capital. The business is enabled to grow through the expansion of knowledge, access to finance, information and mentors. According to Botha (2009:33) networking is useful for entrepreneurs as it provides them with critical support for the development and growth of a business. Some of the benefits of networking include sharing of information of new markets and opportunities as well as obtaining advice.

Gibb (2006:263) argues that effective support systems for Small and Medium Enterprises (SMEs) need to focus on the manner in which the SMEs learn and develop through the growth of their relationships. If a way of determining what economic and social factors drive small businesses to become growth oriented can be found, then support agencies have the potential to target and nurture these factors (Morrison, Breen & Ali, 2003:424; Gibb 2006:263). Fischer and Reuber (2003:346) in a paper contrasting the perspectives of firm owners, government policy advisors and external resource providers on how rapid growth firms should be supported, found that although the firms had incentives to obtain advice from government sources and external source providers, they preferred to obtain advice from peers. These findings suggest that support should be provided using a network-based approach. However, this approach should be informed by the actual needs of the entrepreneurs themselves and not the needs perceived by the support agencies.

In a study of the characteristics of social networks maintained by business owners in Scotland, Atterton (2007:237) found that representatives of local and regional institutions regarded networking as involving formal relationships between businesses. However, business owners

placed more emphasis on informal networks for the running of the business. This study highlighted the difficulties faced by policy makers in finding the right initiatives to encourage networking by entrepreneurs for business purposes. Morrison *et al.* (2003:423) found that a high percentage of small businesses were disinclined to access external assistance and advice relative to strategic decision-making. The results of this study can therefore assist in determining which sources of help are utilised by SMEs so that any assistance provided may be tailored to suit them. The study will add to the knowledge of policy makers on the way SMEs do business.

The next section focuses on the literature review where networking is defined. This is followed by a discussion on the importance and content of networking as well as the structure of networks.

## **LITERATURE REVIEW**

### **Background to the study**

In the National Policy of the government of Swaziland on the Development of Small and Medium Enterprises, the Swaziland government acknowledges that attempts to support the private sector directly have not always been successful. The duty of government should be to facilitate and encourage growth of this sector rather than to drive growth by direct government intervention (Swaziland, Ministry of Enterprise and Employment, 2005:2). A study by Maniukiewicz, Williams and Keogh (1998:78) found that assistance provided to individuals and groups to create entrepreneurial networks is fundamental to any support initiative. This finding is supported by Premaratne (2001:369) in a study conducted on small businesses in Sri Lanka where it was suggested that the formation of entrepreneurial networks should be included in small business support programs.

### **Definition of networking**

A review of the literature on networking has revealed a number of definitions for networks and networking. Dubini and Aldrich (1991:305) defined networks as patterned relationships between individuals, groups and organisations. Hutchings and Murray (2002:187) suggest that the smooth

running of a business can be facilitated through the formation of both social and business relationships as well as connections which is made possible through networking.

Adams (2006:168) defines networks as “patterned relationships between individuals, groups or organisations that are used to secure critical economic and non-economic resources needed to start and manage a business”. Longenecker, Moore, Petty and Palich (2006:376), define networking as the “process of developing and engaging in mutually beneficial informal relationships”. Van der Merwe (2006:30) regards entrepreneurial networking as “an active process of setting up and maintaining win-win and co-operative relationships with other persons or businesses that can offer critical support for the development and growth of a business.” The mentioned definitions all highlight that networking is an active process of developing and maintaining relationships that provide support for a business. It also illustrate that there should be reciprocity in networking.

According to Le Roux and Strydom (2006:255), reciprocity and social exchange occur in social interaction with other people. If the mutual benefits from the interactions do not satisfy the parties involved, they look to other relationships for the value they need. Reciprocity may be illustrated by using the example of inter-firm networks where there is circulation and exchange of information and knowledge. The social contacts with the individuals from other firms are necessary for providing access to information and expertise. Personal contacts within social networks are therefore important. In this context, there has to be reciprocity in networking in order for the process to work effectively. Firms in an alliance have to market themselves as worthy partners in terms of having something to offer the alliance (Mackinnon, Chapman & Cumbers, 2004:94).

The following key elements emerge from the definitions:

- Networks are patterned relationships.
- The relationships are between individuals, groups and/or organisations.
- The relationships are mutually beneficial.
- The relationships are developed and maintained.
- Networks offer critical support for the development and growth of a business.

## **The Importance of networking**

Networks have been found to be important for business in a number of areas. These include business growth, knowledge acquisition and transfer, identification of opportunities, providing practical assistance, legitimacy and the ability to obtain resources.

**Business Growth:** Watson (2007:864), in a study of SMEs in Australia found that the survival and growth of firms was enhanced by the owner's involvement in a range of formal and informal networks. The business owner obtained maximum benefit from being involved in about six networks after which involvement in any more networks would be counter-productive.

**Identification of Opportunities:** Arenius and Clercq (2005:249) assert that entrepreneurs who operated in areas with high network cohesiveness where there were a higher number of possible contacts had a higher potential to perceive opportunities. This study confirms an earlier one by Elfring and Hulsink (2003:412) where it was determined that such a network is a source of information enabling the entrepreneur to locate opportunities.

**Practical Assistance:** A study of women entrepreneurs in Botswana found that women entrepreneurs supported each other by buying from each other when business was slow as well as providing free labour, finance, sharing ideas and problem solving (Ntseane, 2004:39).

**Networks provide a sounding board for ideas:** Farr-Wharton and Brunetto (2007:198) found that women in Russia recognised gains from networking as well as from sharing problems and ideas. They also get useful feedback from other more experienced entrepreneurs. However, the women entrepreneurs were careful not to share important ideas about opportunities with competitors in their business networks and only shared information that was considered not to be sensitive.

**Knowledge acquisition and transfer:** Through interaction with other firms with diverse types of knowledge, a firm can obtain a wide variety of ideas from different sources. The ability to acquire and share knowledge follows the development of personal relationships. Knowledge



acquired through these interactions is combined with other information and resources to create new products services or processes (Mu, Peng & Love, 2008:97).

**Resources:** Networks provide an avenue for entrepreneurs to access resources that they do not have. Social networks have been found to play a vital role in entrepreneurial success in poor communities. In a Sri Lankan study by Kodithuakku and Rosa (2002:431) it was found that the ability to extract value from social networks and contacts enabled entrepreneurs to accumulate capital. In order to attain strategic goals and be successful, entrepreneurs mobilised resources amongst themselves and fellow villagers.

**Legitimacy:** This applies mainly to new ventures which have need of links to customers and partners. A new business needs to be known in the market and accepted by the relevant stakeholders as appropriate and conforming to the prevailing rules and standards. Lechner, Dowling and Welpé (2006:530) note that firms that are market leaders or are highly regarded can give legitimacy to a new firm if they partner with it in business.

### **The content of networking**

With regard to networking content, relationships are viewed as the means through which actors gain access to a variety of resources held by other actors such as advice, problem solving, business information, etc. (Greve & Salaff, 2003:3; Hoang & Antoncic, 2003:166; Parker, 2008:2; Timmons & Spinneli, 2007:138). Resources can either be tangible such as finances, information or advice or intangible such as emotional support (Anderson, Park & Jack, 2007:264). The major resources obtained through networking are finances, information and advice. Other resources identified include human resources, markets, ideas, management assistance and encouragement.

**Advice:** According to Hisrich, Peters and Shepherd (2005:68) mentors, business associates, trade associations or personal affiliations provide counsel and advice to the entrepreneur as well as encouragement. Neergaard (2005:270) reports that in the case of businesses focusing specifically on technology, advice such as legal advice, business plans, product testing, and detailed technical

knowledge are required. Professional advice is paid for where there are no reliable network contacts from whom this advice can be sought.

**Information:** A study by Atterton (2007:237) found that information gathering was one of the benefits obtained from networking. Informal networks were found to be easier ways of learning from others with similar experiences. Information obtained from government officials and experts involved in labelling, exporting etc was found to provide learning experience to entrepreneurs and in some cases led to the recognition of new opportunities (Brunetto & Farr-Wharton, 2007:380).

**Finance:** Le and Nguyen (2009:867) state that bank financing is a key resource for SMEs. There is a correlation between being involved in entrepreneurial networks and obtaining resources. In some developing countries, money is considered to be a complimentary resource which is difficult to obtain without an established relationship with the provider (Premaratne, 2001:363).

**Customers:** Networking with customers is crucial not only for repeat business but is also very important for reputation building in a competitive environment. The kind of customers a business attracts signal the reputation of that business to other customers and this is especially pertinent to young firms (Reuber & Fischer, 2005:74). Young firms usually have no track record of which customers they can effectively serve. Gungaphul and Boolaky (2009:218) found that entrepreneurs maintained personal contacts with their customers and through informal discussions were able to anticipate their needs and wants. Their customer base was expanded through referrals from their existing customers. Therefore their promotion and target marketing occurred unintentionally rather than through the use of formal methods of marketing.

**Market access:** A „marketing network“ refers to the network actors with whom the entrepreneur interacts to obtain marketing benefits. In a study conducted on the nature of networking in small firms, the marketing network was found to comprise potential and existing customers, suppliers, competitors, business friends and colleagues, small business government agencies and employees of the firm (O'Donnell, 2004:213).

Frazier and Huddleston (2009:169) used the social network theory to examine how small businesses network relationships influence the flow of local business information, and whether marketing competence was increased by the ability to obtain relevant, timely and accurate information. The study found that strong personal ties between the small business owners and their network contacts produced critical market information that was perceived to be timely and accurate.

**Human Resources:** Leung, Zhang, Wong and Foo (2006:665) contend that small firms still in the start-up phase find it difficult to attract good human resources due to the liabilities of newness and smallness. These firms used both social and business networks made up of strong ties to acquire human resources during this phase. Recruitment of human resources during this phase was based more on the similarity of background with the entrepreneur for example friends and former colleagues than on functional qualifications. During the growth phase, the focus was mostly on complementary competencies rather than common background.

### **Structure of Networks**

Hoang and Antoncic (2003:170) found that network structure has been defined as “the pattern of direct and indirect ties between actors”. Research on network structures has been directed to exploring the size (Greve & Salaff, 2003:3), density, frequency of contact (Neergaard *et al.*, 2005:343), centrality, background of network contacts, the strength of network ties (Atterton, 2007:231) and network governance (Hoang & Antoncic, 2003:170).

**Network size:** Hoang and Antoncic (2003:171) in their critical review of network based research found that network size is defined as the number of direct relationships between the entrepreneur and other parties. Network size measures the amount of resources an entrepreneur can access. It also measures the opportunities available.

**Frequency of networking:** According to Le Roux and Strydom (2006:255) the frequency of networking is an important feature of networking. The more frequent the interaction between entrepreneurs and their customers, suppliers, employees and professional networks, the higher the

chances for survival and success of the business. Frequent networking also ensures that the entrepreneur becomes aware of changes in the market place and is able to take appropriate action.

**Strength of network ties:** The strength of network ties describes the characteristics of relations. It is usually associated with how long the contact has been known, familiarity, frequency of interactions and emotional involvement. Network ties can be classified as either weak or strong (Rutashobya, Allan & Nilsson, 2009:72). The strength of network ties determines the extent to which an entrepreneur has access to a diversity of resources and opportunities open to them (Hoang & Antoncic, 2003:171).

- **Weak ties**

Weak ties are superficial or casual and there is minimal emotional investment in them. Watson (2007:865) considers the formal network comprising of banks, business consultants, accountants, industry associations, lawyers and the tax office to be weak ties. According to Elfring and Hulsink (2003:411) weak ties are those contacts with which the entrepreneur has some business connection and infrequent and or irregular contact. Sequeira, Mueller and McGee (2007:280) report that weak ties involve non-affective and more formal relationships such as co-workers, bankers, business contacts, community organisations and venture capitalists.

- **Strong ties**

Sequeira *et al.* (2007:283) consider strong ties to be those involving family and friends such as parents, spouses, siblings, other relatives and close friends. Strong ties are those relationships that the entrepreneur can count on and they bind similar people in longer-term and intense relationships. Janssen & Koenig (2002:1039) assert that strong tie networks imply that the individuals involved are in contact more often and are therefore likely to be similar and share similar information.

The literature review reveals that networking is important and useful for a small business owner. It can make a difference towards the success, survival and growth of a small business.

## **PROBLEM STATEMENT**

Entrepreneurship and SME development are two issues at the core of government policy in Swaziland (Shaw, 2007:15). In this study, the research problem seeks to determine the nature of networking by owners and managers of small businesses in Swaziland. The government of Swaziland believes that promotion of the SME sector provides an opportunity for the economic advancement of the Swazi Nation which will result in greater prosperity as well as the economic independence of the nation. There are a number of programmes in Swaziland providing supporting services to SMEs. However, the SME policy of government has provided only a limited vision for the creation of an entrepreneurial society. There is an undertaking to find ways and means to provide more effective and demand-led support from government (Swaziland, Ministry of Enterprise and Employment, 2005:6). A study of the nature of networking by SME owners or managers will add to the knowledge of how these owners or managers conduct business so that any interventions are suited to their needs. Premaratne (2001:369) states that the formation of entrepreneurial networks should be supported in addition to the traditional support programmes.

*The primary focus of this research study is to investigate the nature of networking by SME owners or managers.*

## **RESEARCH OBJECTIVES AND PROPOSITIONS**

The primary objective of this research is to determine the nature of networking activity of the owners/managers of SMEs in Swaziland. In particular, the research will endeavour to uncover the following issues:

- The importance of networking to the business owner or manager;
- The frequency of networking;
- The content of networking; and
- Structure of networking with regard to the network ties.

The secondary objectives are as follows:

- To ascertain the demographic information of the SME owner/managers, such as their age, nationality, gender and educational level.
- To ascertain the characteristics of the SME's.
- To determine how often the SME owners or managers engage in networking activities.
- To establish who the SME owners/managers network with for business purposes.
- To determine the importance of networking to SME owners/managers.
- To ascertain the resources obtained through networking.
- To determine whether gender, level of education, nationality, size or type of the business have a bearing on the networking activities of owners or managers of SMEs.
- To determine whether the entrepreneur's position in the business has an effect on the networking activities of the owner/manager of the business.

The research problem was translated into propositions which are defined by Cooper and Schindler (2006:43) as statements about observable concepts that may be judged as true or false.

The following propositions were formulated from the literature review and research objectives:

P1: Entrepreneurs attach importance to developing relationships for trading purposes.

P2: Entrepreneurs engage in networking activities for trading purposes on a regular basis.

P3: Entrepreneurs obtain resources for the business through both weak and strong network ties.

## **RESEARCH METHODOLOGY**

### **Research design**

This is a formal study conducted in two stages. Firstly, secondary data was collected by reviewing text books and journal articles related to networking in order to discover what research

has been done with regard to networking worldwide. The information obtained from these sources formed the literature review. This literature review enabled the researcher to concretise the research questions and formulate the propositions. The second stage involved obtaining primary data from entrepreneurs and managers on their networking activities.

A structured questionnaire used by an earlier study by Nhlengethwa (2002:73) on networking was adapted to the current study by using the problem statement, research question and propositions as a basis for the adaptation.

### **The research sample and sample size**

A study of the firm and managerial determinants of the export propensity of SMEs in Swaziland by Obben & Magagula (2003:73) found that 80% of all registered businesses in Swaziland were SMEs. An attempt was made to make use of the available SME directory but many of the relevant businesses listed in the directory had moved from their previous locations and could not be traced. This directory was found to be unreliable for purposes of applying any of the probability sampling techniques. A non probability sampling technique was therefore adopted. Questionnaires were distributed to 62 entrepreneurs in the service industry in the towns of Mbabane and Manzini to be completed. Fifty filled – in questionnaires were collected. Although the personal interview was the preferred method of collecting the data, due to the difficulty of finding the entrepreneurs in their offices, it was more expedient for them to fill in the questionnaires at their convenience. A follow - up was made for those who did not fill in the answers properly or left gaps.

### **Data analysis**

The data was analysed firstly, by compiling descriptive statistics of entrepreneur specific characteristics, firm specific characteristics and networking. Secondly, the chi-square test was the preferred statistical analysis test to be applied in this study. However, it could not be applied because many of the cells had expected counts less than five and therefore it may not have been a valid test. According to Robson (2002:419) Fisher's exact test can be used as a substitute where

the expected frequencies are too low for chi-square. Fisher's exact test was therefore used for analysis.

## RESEARCH RESULTS

The sample demographic characteristics and frequencies are compiled in Table 1.

**Table 1: Sample demographics and frequencies**

Variable	Category	Frequency	Percent
Age	24 – 30 years	9	18%
	31 – 40 years	16	32%
	41 – 50 years	17	34%
	51 – 62 years	8	16%
Gender	Male	31	62%
	Female	19	38%
Nationality	Swazi Nationals	34	68%
	Foreign nationals	16	32%
Education	Primary level	1	2%
	High school	3	6%
	College	13	26%
	University	18	36%
	Post graduate	15	30%

Table 1 illustrates that the majority of the entrepreneurs were between the ages of 31 and 50 years representing 66% of the sample population. Those below 30 years were 18% of the sample while only 16% are above 51 years. These findings are close to those of Herrington, Kew and Kew (2009:69) who found that South Africans between the ages of 25 and 44 are the most active entrepreneurs. Bosma and Levie (2009:24) found that globally, the age group 24 – 35 have the highest early-stage entrepreneurial activity while the desire to start a business decreases with age.



Of the 50 respondents, 31 were males, that is, 62% of the respondents and 19 or 38% were female. Herrington *et al.* (2009:69) found that 62% of the owner/managers of established businesses in South Africa were male while 38% were female. According to Bosma and Levie (2009:24), globally, males were found to be more likely to be involved in entrepreneurial activity than females.

The highest percentage of the sample population (66%) had a university education or above. Those with a college education were 26%, while six percent had a secondary education and only two percent had a primary education. A study by Obben and Maggagula (2003:79) conducted on Swaziland entrepreneurs found that 50% of the entrepreneurs under study had a college education and above. Herrington *et al.* (2009:43) found that having a tertiary education significantly increased the likelihood that a person would be the owner/manager of a firm that survived beyond the start-up phase.

With regard to nationality, the majority of the respondents (68%) were Swazi nationals and 32% were foreign nationals. The significant percentage of foreign nationals in business may be attributed to the Swaziland Government's commitment to support increased foreign investment (SME policy 2002:7). The foreign nationals who specified their nationalities included British, Yugoslav, Portuguese, Ugandan, Zambian, Ghanaian, Nigerian, Zimbabwean, Tanzanian and South African nationals.

The firm characteristics of the sample are portrayed in table 2.

**Table 2: Firm characteristics**

<b>Variable</b>	<b>Category</b>	<b>Frequency</b>	<b>Percent</b>
Number of years in business	1 – 9 years	26	52%
	10 – 40 years	24	48%
Form of business	Company	28	56%
	Partnership	11	22%
	Sole proprietor	11	22%
Position in business	Owner	29	58%
	Manager	15	30%
	Senior employee	6	12%
Number of employees	1 – 3 people	15	30%
	4 – 10 people	21	42%
	11 – 50 people	14	28%
Annual turnover	Up to R60 000	19	38%
	Up to R 3 million	26	52%
	Up to R 8 million	5	10%
Services rendered	Management training	15	30%
	Financial services	12	24%
	Insurance	5	10%
	Healthcare	4	8%
	Information technology	4	8%
	Hospitality	3	6%
	Civil engineering	3	6%
	Legal	1	2%
	Vehicle repairs	1	2%
	Real estate	1	2%
	Waste management and cleaning	1	2%

All the respondents in the study had been in business for one year or more. Of these, 52% had been in business for nine years or less and 48% had been in business for over 10 years. Twenty

eight (56%) respondents' businesses were registered as limited liability companies, while 11 (22%) were partnerships and 11 (22%) were sole proprietorships. Of those who responded to the questionnaire, 29 (58%) were the owners, 15 (30%) identified themselves as managers and six (12%) were senior employees. Fifteen (30%) businesses had between 1 – 3 employees, 21 (42%) had between 4 – 10 employees and 14 (28%) had between 11 – 60 employees. Only four percent of respondents had an annual turnover of more than R8 million. Six percent of the respondents had an annual turnover of over 3 million but less than 8 million. Fifty two percent of the respondents operated small businesses and reported an annual turnover of less than 3 million but more than R60 000. Thirty eight percent of the respondents stated that their annual turnover was less than R60 000.

The businesses that were part of this study comprised of 12 providing financial services, four were involved in information technology, five were in hospitality, 14 were providers of management training, and the rest provided professional services including health care, engineering and construction, real estate, insurance and waste management and cleaning. Some of the businesses provided more than one service, for example, one respondent provided marketing and information technology services while another provided both management training and hospitality services.

The findings for the research objectives will be dealt with in the following section.

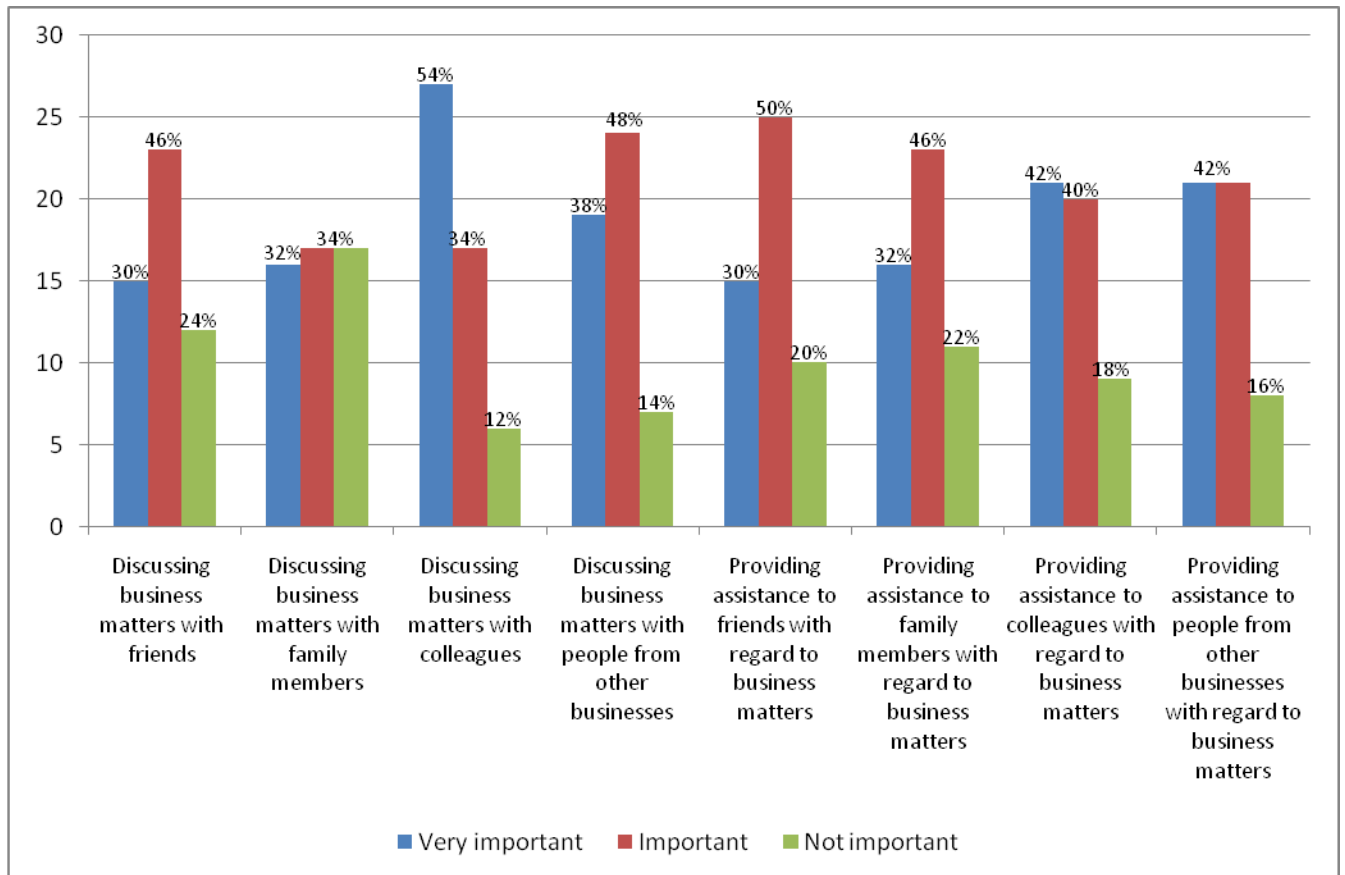
### **Primary objective findings**

The primary objective of the research was to determine the nature of networking activity of the owners/managers of SMEs in Swaziland. The issues that were deliberated on include the importance of networking to the business owner or manager; the frequency of networking; the content of networking; and the structure of networking with regard to the network ties.

## Importance of networking

Respondents were asked to indicate the level of importance of discussing business matters with and providing assistance with regard to business matters to family, friends, colleagues, and people from other businesses. The results are displayed in figure 1 below.

**Figure 1: The importance of networking**



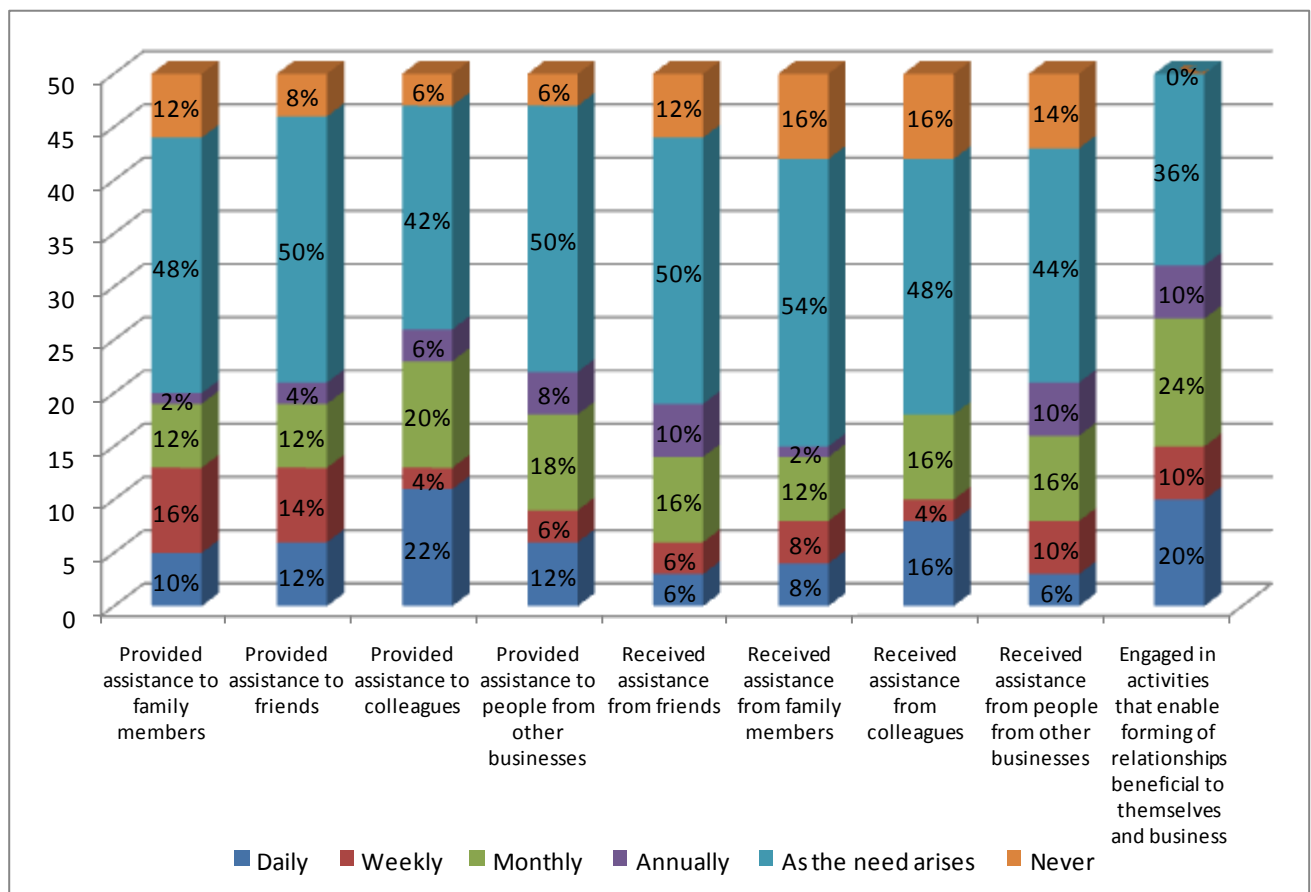
The findings show that a significantly high percentage of the respondents considered it to be very important to discuss business matters with and provide assistance to colleagues. The respondents also considered discussing business matters with and providing assistance to people from other business organisations to be of importance. A third of the respondents did not regard discussing business matters with family members to be of importance. This implies that the respondents are more inclined to discuss business matters with colleagues and people from other businesses than with family members. This may be due to the social capital that can be accessed by networking with colleagues and people from other businesses which may not be available by networking with

family members. According to Anderson *et al.* (2007:264) social capital is represented by investing in social relationships that can bring expected returns directly or indirectly. Jack (2005:1244) found that family members represent strong ties in the network and provide important support for the entrepreneur in the business because they can be trusted to provide good information and are able to support the activities of the business. However, there is little evidence of exchange relationships which may be due to the extent of the family ties. With regard to colleagues and people from other businesses, the networking relationship is also based on trust but here there is a degree of exchange of information and resources.

### Frequency of networking

With regard to the frequency of networking, the results are illustrated in Figure 2.

**Figure 2: Frequency of networking**



About 50% of the respondents engage in networking activities as the need arises. In other words, their networking activities are not planned for or scheduled. All the respondents engage in activities that enable the forming of relationships that are beneficial to them and their businesses. Jack (2005:1251) found that it is the function of the network link and how it can be utilised that is important rather than the frequency of contact. Network links remain dormant in the network and are only re-activated for business activity as and when the need arises. The current study shows that respondents utilise their network links mostly as the need arises which confirms that it is the function of the link that is important rather than the frequency of contact.

### **Network content (resources obtained)**

Findings on network content confirm those of previous studies where it was found that networks are the means through which the actors obtain resources for running their businesses (Greve & Salaff, 2003:3; Hoang & Antoncic, 2003:166; Parker, 2008:2; Timmons & Spinneli, 2007:138 and Premaratne, 2001:363). This study found that advice, information and market access are the major resources obtained through networking. Advice and information are more likely to be obtained from friends and colleagues than from family, business associations and people from other businesses. A higher percentage of the respondents accessed their markets through friends. This confirms the findings of a study by Frazier and Huddleston (2009:179) who found that small business retailers perceived market information received from strong personal tie network contacts to be more relevant accurate and timely.

Finance and human resources are the least likely resources obtained through networking. This confirms the findings of a study by Premaratne (2001:369) where it was established that social networks provide non material support and information while organisational networks provide financial support. Le and Nguyen (2009:867) in their study on financing of SMEs in Vietnam found that networking with customers and government officials led to the increased use of bank loans while networking with suppliers and social ties reduced the need for bank loans.

Business associations are used mainly as a source of information. According to Davis, Renzulli and Aldrich (2006:64), an entrepreneur can increase the occupational diversity and reduce the density of their networks by joining different organisations such as business or professional associations thereby increasing their access to new information, resources and assistance for their businesses.

Colleagues were found to be the most likely source of human resources while family members were the least likely source of human resources. This confirms the findings of an earlier study by Chell and Baines (2000:201) where it was assumed that family and friends (strong ties) would be expected to have a say in the recruitment process of human resources but it was found that small business owners did not rely on strong ties when recruiting employees.

### **Network content (assistance provided)**

The element of reciprocity in networking was confirmed in the findings. The respondents provided mainly advice, information and to a lesser extent customers to colleagues and information, advice and to a lesser extent market access to people from other businesses. Friends and family received mainly advice and information. Family members were also more likely to receive financial assistance.

### **Discussion of network size**

With regard to the size of the discussion network, 64% respondents had discussed business matters with up to 25 people during the past six months, while 34% had discussed business matters with more than 25 people.

### **Secondary objective findings**

The secondary objectives were as follows:

- To ascertain the demographic information of the SME owner/managers, such as their age, nationality, gender and educational level.

- To ascertain the characteristics of the SME's.
- To determine how often the SME owners or managers engage in networking activities.
- To establish who the SME owners/managers network with for business purposes.
- To determine the importance of networking to SME owners/managers.
- To ascertain the resources obtained through networking.
- To determine whether gender, level of education, nationality, size or type of the business have a bearing on the networking activities of owners or managers of SMEs.
- To determine whether the entrepreneur's position in the business has an effect on the networking activities of the owner/manager of the business.

### **Findings on Demographic Characteristics of the Respondents**

This study included a diverse range of subjects with respect to age, education, and nationality. This was essential as it enabled cross-tabulation of the demographic variables with the networking variables in order to identify relationships between the variables (Cooper & Schindler, 2006:483). The respondents were aged between 24 and 62. 46% were aged between 24 and 38, while 54% were aged between 40 and 62. Almost two thirds (68%) of the sample population were male. There were different nationalities represented in the sample although 68% of them were Swazi nationals. Other nationalities included Ugandans, Zimbabweans, Ghanaian, Tanzanians, British, Yugoslav, Nigerian, Portuguese and South Africans. 36% of the respondents possessed a university degree; 30% a postgraduate qualification; 26% had a college qualification; six percent had high school level of education; and only two percent of the respondents had primary level of education.

### **Findings on Firm Characteristics**

The findings on the firm characteristics were also essential for cross tabulation purposes. While 52% of the respondents had been in business for periods ranging from 1-9 years, 48% had been in it for 10-40 years. 56% of the respondents' businesses were registered as companies, 22% were partnerships and 22% were sole proprietorships.



In order to establish any significant relationships between the demographic and firm characteristics and the networking variables, Fisher's Exact Test was applied to the variables using the cross-tabulation method. The following results were observed.

### **Findings on cross tabulation of demographic characteristics and frequency of networking**

The findings show that demographic characteristics of the respondents had no bearing on the frequency of networking.

### **Findings on cross tabulation of firm characteristics and frequency of networking**

A statistically significant relationship was observed between the frequency of networking with family members and friends and the form of business. See table 3 for the results. Although the company owner provided assistance to family members as the need arose, he or she was also more inclined never to provide assistance to family members. This implies that entrepreneurs who run businesses that are registered as companies were less inclined to provide assistance with regard to business matters to their family members. The reason for this finding may be that there are no mutual benefits to be gained by networking with family members in business matters (Le Roux & Strydom, 2006:255). According to Bowey and Easton (2007:279), social capital is built on the principles of trust, reciprocity, unspecified obligations and reliable commitment. Entrepreneurs engaged in relationships in order to access resources and built social capital by trading reciprocal favours, joint problem-solving, socialising through dinners and sporting activities, and delivering to expectation. Providing assistance to family members may not enhance the building of social capital, since the element of reciprocity may not be evident in the relationships (Jack, 2005:1244).

**Table 3: P-values from Fisher’s Exact test testing for a significant relationship between frequency of networking and firm characteristics**

<b>Variable – frequency of networking</b>	<b>Length of time in business</b>	<b>Form of business</b>	<b>Position in business</b>
Provide assistance to family members	0.8798	<b>0.0048</b>	0.7474
Provide assistance to friends	0.3822	<b>0.0079</b>	0.4743
Provide assistance to colleagues	0.2710	0.8391	0.1580
Provide assistance to people from other business organisations	0.7760	0.2463	0.0834
Receive assistance from friends	0.7403	0.4664	0.2766
Receive assistance from family members	0.9529	<b>0.0348</b>	0.7396
Receive assistance from colleagues	0.4360	0.3768	0.4629
Receive assistance from people from other businesses	0.8204	0.9583	0.1240
Engage in activities that enable the forming of relationships that are beneficial	0.8739	0.7283	<b>0.0320</b>

**P<0.05 (Statistical significance)**

The highlighted values are significant on the 5% level

The position of the respondent in the business was found to have a bearing on the frequency of engaging in activities that enable the forming of relationships that are beneficial to the entrepreneur and the business. The business owner was found to be more inclined to engage in networking activities that are beneficial as the need arose while the manager was more inclined to network daily. While the manager’s role of planning, organising, leading and control which serve to keep the business on course may require the manager to network with customers, suppliers, employees and other people on a daily basis; senior employees are least likely to engage in networking activities on a regular basis.

**Findings on cross tabulation of demographic and firm characteristics and importance of networking**

- Entrepreneurs who were 40 years old and over attached less importance to providing assistance to friends and family members regarding business matters.
- Male entrepreneurs had a higher propensity than female entrepreneurs to provide assistance to people from other businesses.

- A statistically significant relationship was found between the position held by the respondent in the business and discussion partners. Whereas the owner of the business was found to be more inclined to discuss business matters with colleagues than the manager, the senior employee was least likely to discuss business matters with colleagues. Moreover, the owner of the business was found to be more inclined to attach importance to discussing business matters with people from other businesses.
- Entrepreneurs who had been in business for more than 10 years were more inclined to obtain assistance from business organisations with regard to market access.

### **Findings on cross tabulation of demographic and firms characteristics and size of discussion network**

The demographic characteristics of the respondents as well as the firm characteristics were found not to have a bearing on the size of their discussion network. A study by Greve and Salaff (2003:13) found that the number of years an entrepreneur has run the business and his or her age did not affect the size of their network, although females were found to have more contacts than males. However, a later study by Cruickshank and Rolland (2006:72) on the effectiveness of networking behaviour of New Zealand entrepreneurs found that women claimed to have interacted with less than 20 contacts during one month while men interacted with larger numbers of contacts.

### **Proposition statements revisited**

The proposition statements read as follows:

#### **P1: Entrepreneurs attach importance to developing relationships for trading purposes.**

Based on the empirical research, this proposition was found to be true. Business owners/managers attach importance to engaging in activities that enable the forming of relationships that are considered to be of benefit to them and their businesses. The findings show that a significantly high percentage of the respondents considered it very important to discuss

business matters with and provide assistance to colleagues and people from other business organisations. Less importance was attached to discussing business matters with family members.

**P2: Entrepreneurs engage in networking activities for trading purposes on a regular basis.**

Based on the empirical research, this proposition was found to be true. Business owners/managers engage in activities that enable the forming of relationships that are considered to be of benefit to them and their businesses. The results of this study show that while business owners mostly engage in networking activities as the need arises, managers are more inclined to engage in networking activities on a regular basis. This proposition is, therefore, true as far as it concerns managers.

**P3: Entrepreneurs obtain resources for the business through both strong and weak network ties.**

This proposition is true. Not only was advice and information more likely to be obtained from friends and colleagues, colleagues were also found to be the most likely source of human resources. A higher percentage of the respondents accessed their markets through friends. Business associations are used mainly as a source of information.

In summary, networking is useful for small businesses. Traditional means of support can be enhanced by creating opportunities for small business owners and managers to network.

## **LIMITATIONS**

One of limitations of this research is that firstly, the non probability sampling method used does not allow a generalisation of the results to the whole population of SMEs in the service sector in Swaziland. Secondly, this sampling method creates an opportunity for bias to enter the sample

selection procedure (Cooper & Schindler, 2006:423). The small sample size will also limit the ability to generalise the findings of the study to the rest of the SME's in the country.

## **RECOMMENDATIONS**

The entrepreneurs in this study were found to be involved in networking activities and therefore support provided to SME's should include a networking component whereby more advice, information and financial resources can be accessed. Watson (2007:852) in modelling the relationship between networking and firm performance found that although both formal and informal networks are associated with firm survival, only formal networks are associated with firm growth.

The results of this research can be used as a foundation for a larger country wide study on the nature of networking by SME owners or managers. Furthermore, an investigation of how networking contributes to firm growth would also be of interest especially to policy makers. A longitudinal research method can also be conducted in order to capture the development of networks as a business goes through different stages of growth.

## **IMPLICATIONS FOR MANAGERS**

In many instances entrepreneurs have the dual role of being both owners as well as managers. The results of the study confirm that as managers it will be to their advantage to engage in networking activities on a regular basis and not only as the need arises. Networking is important for business growth, identification of opportunities, knowledge acquisition and transfer, and for obtaining resources. The study found that advice, information and market access are the major resources obtained through networking. Belonging to business associations further assist managers to gain access to relevant and important information required when making decisions.

Managers who are actively involved in networking increases the chances for survival and success of the business venture than managers who are not networking.

## CONCLUSION

Networking has been found to transpire in both developing and developed countries. The primary objective of this research was to investigate the nature of networking activity of the owners/managers of SMEs in the service sector in Swaziland. The study analysed data from a cross-sectional study using a structured questionnaire as measurement instrument.

Various definitions of networking, the structure and content of networking have been discussed. The literature review reveals that networking is especially important for a small business owner because small businesses lack the resources necessary to manage their businesses. Networking has been found to be beneficial to entrepreneurship from the nascent stage and as it moves through the different stages of the lifecycle of a business up to maturity. The main aim of networking is to obtain resources that an entrepreneur would be unable to obtain on his own without outside help. The definition of networking highlights that the parties in the network mutually benefit from engaging in networking activities.

The research findings show that the entrepreneurs engage in networking activities and networking which is important to them. There is evidence of networking with weak ties such as people from other businesses and with strong ties such as friends. Networking has been found to be useful in obtaining resources especially advice and information. Financial resources were the resources least obtained through networking. The entrepreneurs also provide resources to others in business including family members, friends, colleagues and people from other businesses.

It was also found that although some of the entrepreneurs engage in networking activities on a regular basis, most of the entrepreneurs engage in networking activities as the need arises. The nature of networking with the different actors was found to be influenced in some instances by the age of the respondent, gender, position in the business, and the form of business.

In the national effort to support SMEs in Swaziland, traditional means of support can be enhanced by creating opportunities for the SME owners or managers to network.

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# THE PERCEIVED CAPABILITIES AND WILLINGNESS OF SOUTH AFRICAN SMALL BUSINESS OWNERS TO ACT AS BUSINESS MENTORS

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**Keywords:** business mentors and mentees; capabilities and willingness to mentor

# THE PERCEIVED CAPABILITIES AND WILLINGNESS OF SOUTH AFRICAN SMALL BUSINESS OWNERS TO ACT AS BUSINESS MENTORS

## Abstract

*This paper focuses on the capabilities and willingness of South African small business owners to act as business mentors. The literature study reveals that in order to perform the role and function of a successful business mentor, requires particular personal, relational and professional capabilities. Such capabilities should be viewed as an integrated whole. Willingness to act as a business mentor is influenced by a number of factors that need to be considered when deciding to perform such role. The purpose of this paper is to provide an opportunity for interested groups to utilise small business owners as a source of business mentors to assist and guide inexperienced entrepreneurs through the difficult process of starting and growing a business. A measuring instrument was developed to field the perceptions of respondents regarding their business mentoring capabilities and willingness to mentor. Factor analysis was conducted and the analysis of variance (ANOVA) performed to ascertain significant findings.*

## 1. Introduction

South Africa faces many economic, political as well as social challenges in its new democracy. One of the biggest challenges is that of growing unemployment, with a massive shortage of skilled and educated youths (Herrington, Kew & Kew, 2009:12).

Herrington *et al.* (2009:12) further indicate that such unemployed and unemployable youths place a heavy burden on a limited government budget. Emphasis is placed on entrepreneurial and small business development. The poor success rate of business start-ups in South Africa relative to that of other countries necessitates the development of policy interventions aimed at giving support to such entrepreneurs and the mentoring of entrepreneurs through the difficult process of starting and growing a business (Herrington *et al.*, 2009:62). Ladzani and Netswera (2009:236) agree and state the one of the main contributing factors to the low success rate of small, medium and micro enterprises (SMMEs) in South Africa is the under development and under utilisation of business support services.

Large numbers of South African business owners lack the ability to progress their businesses from start-up firms to established firms (Herrington *et al.*, 2009:148). They further suggest that business mentoring should focus on the formal sector, as small businesses in this sector create significantly more jobs and revenue than those in the informal sector.

Different authors indicate the capabilities needed to be business mentors (Moore, Petty, Palich & Longenecker, 2008:21; Hisrich, Peters & Shepherd, 2008:62). In this paper, the capabilities of good business mentors will be compiled into a profile and measured with regard to small business owners. It is expected that even though small business owners might possess such capabilities, they might not be willing to act as business mentors for various reasons.

The main research question of this paper is whether South African small business owners have the capability and the willingness to act as business mentors. This paper comprises a literature study which depicts the phenomenon constructs related to business mentor capabilities. Primary research is conducted to determine whether a group of small business owners have such capabilities and their willingness to act as business mentors, followed by analysis of collected data and related conclusions and recommendations.

## **2. Problem investigated**

The South African government regards SMMEs as vital role players in economic growth and development, job creation as well as equity in this country (Department of Trade and Industry, 1995:3). The success of any SMME is directly related to the quality of the entrepreneur who starts and runs such business. The successful development and management of SMMEs form an integral part of the job creation goals as set by the South African government (Ladzani & Netswera, 2009:225; Swanepoel, Strydom & Nieuwenhuizen, 2010:59).

Currently SMMEs do not meet such requirements owing to the fact of between 30% and 80% of businesses fail within the first two years of commencement (Department of Trade and Industry, 2000:3 and Pretorius, 2009:309). Many of the emerging entrepreneurs lack the necessary know-how to develop and manage their SMMEs effectively. Business mentoring could constitute learning opportunities that focus on developing managerial and entrepreneurial skills with the view to developing the capability of an emerging entrepreneur

to grow a long term sustainable business (Adams, 2009:194). Watson (2004:2) underscores this viewpoint by indicating that business mentorship nurtures and supports novice entrepreneurs by providing assistance that is renowned for professional, social and moral support.

The Department of Trade and Industry (DTI) regards business mentoring, in conjunction with training, to be of vital importance for small business owners to acquire relevant business skills, technical skills and vocational skills (DTI, 1995:35-37). Swanepoel *et al.* (2010:75) concur that the very poor state of SMME success in South Africa requires, *inter alia*, business mentoring to ensure successful business in South Africa and realisation of government endeavour to reduce poverty and enhance employment. In order to assist emerging entrepreneurs to develop and run a SMME effectively, business mentors need to possess particular capabilities and the willingness to perform the role of business mentors.

If small business owners are capable and willing to act as business mentors, and they do not act as such, this is a huge untapped resource that could and should be utilised in order to help emerging entrepreneurs to grow successful businesses. This might ensure a higher success rate regarding SMMEs, which in turn might assist in alleviating the unemployment problem and poor economic situation in South Africa.

Current research findings in South Africa concentrate on knowledge requirements for entrepreneurs and small business support practitioners (Martin, 2008:24) as well as the situational analysis of entrepreneurship mentors (Watson, 2004:8-9). None of these studies honed in on small business owners judging their own capabilities and willingness to act as business mentors. Therefore the problem statement is: Does small business owners in South Africa have the capabilities and willingness to act as business mentors?

### **3. Research objectives and hypotheses**

#### **3.1 Primary research objective**

The primary objective of this research is to establish the willingness of South African small business owners to act as business mentors.



### 3.2 Secondary research objectives

As secondary objectives this paper endeavours to prove the following:

- Small business owners do have the personal capabilities needed to be good business mentors.
- Small business owners do have the relational capabilities needed to be good business mentors.
- Small business owners do have the professional capabilities needed to be good business mentors.

### 4. Hypotheses

The following hypotheses are postulated:

$H_1$  South African small business owners do not have the willingness to act as business mentors.

$H_{1A}$  South African small business owners have the willingness to act as business mentors.

$H_2$  Small business owners do not have the personal capabilities needed to be good business mentors.

$H_{2A}$  Small business owners do have the personal capabilities needed to be good business mentors.

$H_3$  Small business owners do not have the relational capabilities needed to be good business mentors.

$H_{3A}$  Small business owners do have the relational capabilities needed to be good business mentors.

$H_4$  Small business owners do not have the professional capabilities needed to be good business mentors.

$H_{4A}$  Small business owners do have the professional capabilities needed to be good business mentors.

## **5. Literature review**

### **5.1 Defining concepts**

Definitions of the main terms used in this paper follow.

#### **5.1.1 Small Business and Small Business Owners**

When defining small businesses, qualitative as well as quantitative criteria need to be taken into consideration according to the National Small Business Amendment Act of 2004. The National Small Business Amendment Act (2004:1043) defines an enterprise as "... a separate and distinct business entity, together with its branches or subsidiaries, if any, including co-operative enterprises, managed by one owner or more predominantly carried on in any sector or subsector of the economy mentioned in column 1 of the Schedule and classified as a micro-, a very small, a small or a medium enterprise by satisfying the criteria mentioned in columns 3, 4 and 5 of the Schedule". For the purpose of this paper, a small business will be regarded as one of which the annual turnover do not exceed R10 million and which employs less than 50 employees.

#### **5.1.2 Entrepreneurship and the entrepreneur**

For the purpose of this paper "entrepreneurship is the emergence and growth of new businesses....entrepreneurship is also the process that causes changes in the economic systems through innovations of individuals" (Nieman & Nieuwenhuizen, 2009:9). Making profits that will serve a variety of needs is the basic motivation of entrepreneurial activities. Implementing the entrepreneurial process is essential for being a successful entrepreneur.

#### **5.1.3 Business Mentoring**

For the purpose of this paper, the focus is on mentoring needs regarding the business and not regarding personal mentoring.

Bettmann (2009:1834) defines mentoring as a dynamic reciprocal relationship environment between an inexperienced mentee and an experienced business mentor aimed at the

development of the former. Business mentoring can be seen as a relationship between an experienced and inexperienced person with the primary objective to support the personal and professional development of the junior person. The senior person coaches the junior regarding business skills, to solidify self-confidence and sponsors the junior by actively intervening in business situations in order to advance the professional qualities and opportunities of the junior (Robbins, 2001:498).

#### **5.1.4 Business mentor**

Mincemoyer and Thomson (1998:1) argue that a mentor can be regarded as a senior person of particular influence based on higher ranking with regard to experience and knowledge and who is committed to the professional advancement of less experienced persons. Osif (2008:336) indicates that a mentor is a person with explicit applicable knowledge coupled with appropriate first-hand experience in a particular field of practice that a less experienced person would like to have. Generally it appears that a business mentor is a person who is willing to share his experiences, knowledge, know-how and skills together with the solutions he/she has encountered in building his/her business and career successfully.

#### **5.1.5 Business mentee**

A mentee, also termed as protégé, is a person who has a limited background in a specific field of knowledge or discipline, coupled with limited experience in a specific field of practice and, therefore, limited professional expertise. Such limitations and inexperience may apply to business in general or to a specific type of business or career (Audet, Couteret, St-Jean, Laverrière & Boucher, 2006:5). Mentees, who may be of any gender, race or culture, are usually people of relative younger age and in junior positions in organisations or have limited professional stature (Lankau, Riordan & Thomas, 2005:257). Barrett (2006:617) indicates that business mentees are people who participate in the mentoring process with the distinct motivation to improve their business skills. Business mentees appear to have a greater need for power and achievement (Clutterbuck, 2005:6).

### **5.1.6 Willingness**

Bergh (2004:429) states that willingness implies the agreement to be involved in work. He also emphasises that it indicates a person's work orientation that relates to efficacy with regard to professional socialisation and achievements in performance. Willingness equalizes to people who are agreeable to cooperate (Robbins, Odendaal & Roodt, 2006:88). Roythorne-Jacobs (2004:204) corroborates this viewpoint by stating that willingness implies agreeableness and cooperation.

For the purpose of this paper willingness indicate a preparedness and commitment to perform the role of a business mentor. Willingness is demonstrated in being available and approachable to assist and support a start-up mentee in developing personal and professional capacities and enhancing business success.

### **5.1.7 Capability**

Capability reflects the capacity to perform a specific role on the basis of career maturity which implies that a person has acquired the required knowledge, know-how, abilities and applicable attributes to perform specific responsibilities associated with a particular position (Bergh, 2004:429). Robbins *et al.* (2006:47) postulate that capability indicates an individual's capacity to do and complete the responsibilities associated with a specific task. The distinct meaning of capability thus refers to what a person can do. Capability in this paper refers to the skills and competency needed in order to be a good or effective business mentor.

## **5.2 Business mentoring capabilities**

An intensive literature review was done that revealed many different necessary capabilities according to many different authors. Sambunjak, Straus and Marusic (2009:75) classified desired characteristics of mentors in three groups. The three groups are personal, relational and professional capabilities and these capabilities are summarised in Table 1.

Personal capabilities refer to an individual's cognitive and behavioural competencies implying the knowledge basis and skills a person possesses as the basis for dealing with reality (Albertyn, 2004:378). According to Sambunjak *et al.* (2009:75), personal capabilities

include understanding, patience, honesty, responsiveness, trustworthiness, nonjudgmental attitude, reliability, active listener, and motivator.

Bettmann (2009:1834) states the importance of relational capabilities is to have interpersonal skills as an integral part of the capabilities needed by a business mentor. He also indicates that the success of the business mentoring relationship directly relates to the interest of the business mentor in serving as such. Interpersonal skills, related to effective listening and empathy, appear to be some of the strongest capabilities that a business mentor should possess. Building and maintaining a positive motivational and empowering working relationship will facilitate mentee growth in relationship building. Within the context of this paper it is important to understand that personal capabilities, interpersonal skills, and relational capabilities are closely interwoven and cannot be absolutely separated. With regard to the relational capabilities of a good business mentor, Clutterbuck (2005:4) states the importance of commitment to such business mentoring relationship as well as availability to maintain this relationship.

Sambunjak *et al.* (2009:75) regard professional capabilities of the business mentor as the mentor being senior and well-respected, knowledgeable and experienced in the business context. Sufficient skills related to the specific business of the mentee are very important (Bettmann, 2009:1834). In this regard, the business mentor needs to set the example as a role model for the mentee. Such role model also applies to the wide range of capabilities of the business mentor which need to be imparted to the mentee during the mentoring process. Hegarty and Styles (2008:22) specify that the role model of the business mentor comprise a demonstration of appropriate professional behaviour. Mastering of applicable attitudes, behaviours, values, and roles by mentees occurs by mentees emulating, observing and imitating the examples that their business mentors set (*e et al.*, 2006:56).

**Table 1: Summary of business mentor capabilities**

Capability	Brief explanation	Sources
<b>Personal capabilities:</b>		
Inspire people	Enthuse, instil sense of purpose, desire to succeed, positive attitude, client orientation	Swanepoel <i>et al.</i> (2010:66); Lamm & Harder (2010:3)
Begin where mentee is	Enter mentee's world, understand experiences and challenges, culture and language	Audet <i>et al.</i> (2006:4); Sambunjak <i>et al.</i> (2009:75)

Empathy	Appreciation of feelings, experiences and frustrations, non-judgemental	Audet <i>et al.</i> (2006:4); Gehrke (1988:194); Lamm & Harder (2010:3); Clutterbuck (2005:4)
Believe in mentee	Create confidence, see bigger picture	Thompson & Downing (2007:537)
Effective, active listening skills	Hear and understand the „language“ of mentee	Audet <i>et al.</i> (2006:4); Clutterbuck (2005:4)
Reflection and teaching by learning through feedback	Analytic, systematic and conceptual thinking and gaining perspectives thereupon, problem-solving	Freedman (2009:173)
Credibility, trustworthiness and integrity	Adhere to personal moral values	Benn & Brennand (2008:2); Sullivan (2000:171); Lamm & Harder (2010:3)
Communication skills	Ability to congruently understand language of mentee and ensure congruency of own language	Dalley & Hamilton (2000:10); Terrion & Leonard (2007:156); Erasmus, Loedolff, Mda & Nel (2006:248); Pinho, Coetzee & Schreuder (2005:21)
Supportive	Recognition of progress of mentee, give recognition and share in achievements	Thompson & Downing (2007:537); Benn & Brennand (2008:2); Benard (1998:2)
Self-less	Putting other`s interests before one`s own	Bettmann (2009:1834); Clutterbuck (2005:4)
<b>Relational capabilities:</b>		
Accessibility	Approachable and making time available	Derrida (2009:2); Sambunjak <i>et al.</i> (2006:5)
Building long-term relationship	Creating and maintaining a workable, practicable relationship over time	Rickard & Rickard (2009:767); Barrett (2006:615); Erdem & Janset (2008:4)
Interpersonal skills	Working and liaising with other people in an easy acceptable manner for the purpose of building a relationship	Gibb (2000:16); Hegarty & Styles (2008:24)
Commitment	Dedicate oneself on a long-term basis in order to achieve personal and professional goals	Clutterbuck (2005:4); Bettmann (2009:1834)
<b>Professional capabilities:</b>		
Business experience	Practical „how-to“, expert in field of business	Sambunjak <i>et al.</i> (2009:75); Audet <i>et al.</i> (2006:11)
Business knowledge	Perspectives on the what, where, when, why, who and how of developing a business	Hisrich <i>et al.</i> (2008:62)
See opportunities and challenges	Understand the risks in the entrepreneurial process and to	Benn & Brennand (2008:2)

	generate solutions	
Training	Facilitate mentee learning	Barrett (2006:23); Gibb (2000:16); Bozeman & Feeney (2008:475); Audet <i>et al.</i> (2006:5)
Goal setting and planning	To elicit feasible objectives and to foresee ways in achieving such	Clutterbuck (2005:5)
Problem solving	Generation of solutions in relation to obstacles and challenges in the entrepreneurial process	Watson (2004:154); Lamm & Harder (2010:3)
Decision making	To come to applicable valid conclusions related to specific challenges	Sullivan (2000:167)
Being a role model	Setting a clear example of professional conduct	Hegarty & Styles (2008:2); Erdem & Janset (2008:4); Derrida (2009:2); Robbins <i>et al.</i> (2006:56); Barrett (2006:23); Hisrich <i>et al.</i> (2008:62)
Evaluator	Capability to assess mentee achievements in mastering learning objectives and outcomes	Audet <i>et al.</i> (2005:5)
Strategic vision	To appraise current business affairs in the light of future threats with the view to ensure success	Dracup & Bryan-Brown (2004:450)
Risk-taking	Capability to judge the threats within a given business opportunity and to make effective, realistic decisions for achieving success	Dracup & Bryan-Brown (2004:450)
Creativity	The capability to generate innovative ways in utilising opportunities and resources for advantageous business successes	Dracup & Bryan-Brown (2004:450)
Leadership	Capability to provide positive and appreciative direction with regard to performing professional responsibilities	Clutterbuck (1999:76); Erdem & Janset (2008:4)

**Source: Own compilation**

### 5.3 Willingness to act as business mentor

Willingness to act as a business mentor refers to the positive approach towards the business mentoring of an inexperienced mentee with the view to assist and guide the latter on his/her way to become a mature, effective business owner. Various factors can play a role in the decision of an experienced business owner to take up the role and responsibilities of business mentoring (Ghislieri, Gatti & Quaglino, 2009:216-217; Lankau *et al.*, 2005:264).

Ghislieri *et al.* (2009:207-209) used seven scales to measure mentoring variables viz, willingness to mentor, drawbacks to mentoring, organisational support for mentoring, mentoring functions, mentoring benefits, mentoring costs and personal characteristics perceived as necessary for a mentor. They present the following results:

- Male persons are more willing to mentor.
- Executives are more willing to mentor than manual workers, office workers and supervisors.
- Differences in educational levels do not play a role in willingness to mentor.
- Non-executives list more drawbacks to mentoring than executives as did lower educated persons in comparison with higher educated persons.
- People who had previous experience as a mentor are more willing to mentor and list fewer drawbacks to mentoring.
- Innate and acquired personal characteristics as well as past mentoring satisfaction are positively related to willingness to mentor.
- Willingness to mentor relates to mentoring benefits, mentoring costs, mentoring functions, self-efficacy, ambition and self-determination, and sensitivity of control by others.

Pinho *et al.* (2005:21) indicate that willingness to mentor is influenced by the mentor's perception about the mentee's interpersonal competence and being an effective subordinate. Similarity with regard to personal and professions interest and expectations also play a role in willingness to mentor (Pinho *et al.*, 2005:21 and Sambunjak *et al.*, 2009:75). Table 2 provides a summary of the factors that influence an individual to act as a business mentor.



**Table 2: Factors influencing willingness to act as business mentors**

Factor	Short description	Sources
Demographic similarity	Geographical distance	Lankau <i>et al.</i> (2005:262)
Deep-level similarity	Emotional congruency	Lankau <i>et al.</i> (2005:262)
Functional similarity	Forming similar tasks/responsibilities	Lankau <i>et al.</i> (2005:262)
Limited loyalty to a particular employer	Not bound by organisational structures	Lankau <i>et al.</i> (2005:262)
Interpersonal attraction	Liking and cohesion	Lankau <i>et al.</i> (2005:262)
Previous experience of mentoring	Was previously involved as mentor	Ghislieri <i>et al.</i> (2009:207-209)
Self-directed individual	Internal locus of control	Ghislieri <i>et al.</i> (2009:207-209)
Gender	Male persons are more likely to mentor	Ghislieri <i>et al.</i> (2009:207-209)
Benefits for mentors	Rewards, building stature, self-efficacy etc.	Ghislieri <i>et al.</i> (2009:207-209)
Mentee interpersonal competence	Effective social skills	Pinho <i>et al.</i> (2005:21)
Mentee sub ordinance	Mentee willingness to accept authority	Pinho <i>et al.</i> (2005:21)
Mentor personal and professional interest	Self-improvement	Pinho <i>et al.</i> (2005:21); Sambunjak <i>et al.</i> (2009:75)

**Source: Own compilation**

## 6. Research methodology

Quantitative research is conducted by collecting data from a measuring instrument which was distributed to small business owners. This ties in with the findings of Allen, Eby, O'Brien and Lentz (2008:248 & 353) that such approach is most prevalent (89.9%) in their study on the state of research on mentoring. By using a self-developed single measuring instrument (questionnaire) the current study limits the benefits of triangulation by not using multiple methods to test the perceptions of small business owners with regard to their capabilities and willingness to act as business mentors (Allen *et al.*, 2008:350). The study did not apply a standardised measuring instrument as such instruments do not exist pertaining to the profiling of the capabilities or willingness of small business owners to act as business mentors (Ghislieri *et al.*, 2009:210). Such self-developed measuring instrument also does not provide acclaimed formal valid and reliable data as standardised instruments (Allen *et al.*, 2008:344).

The questionnaire was distributed to 120 small business owners of which 80 returned the completed measuring instrument. This represents a 67% response rate. Non probability

convenience sampling technique was used because the total population (all small business owners) were not available and accessible (Cooper & Schindler, 2008:397). Such sampling implies that findings do not *ipso facto* apply to all small business owners in a particular society. A snowballing and referral technique was used to mine the network of the research (Pellisier, 2007:32).

As indicated previously, the sample consisted of 80 small business owners in South Africa. The respondents had to rate their capabilities and willingness to act as business mentors on a three point Likert-rating scale. Open-ended unforced choice rating scale measures were few. The measurement scales include nominal, ordinal and ratio types of scales (Cooper & Schindler: 2008:282-286).

Additionally, factor analysis was executed to determine the validity of the different Likert scale items used throughout the measuring instrument. Cronbach Alpha values were determined to provide the reliability coefficients calculated for the final factors of the Likert scales used in the measuring instrument. The ANOVA was used to determine possible differences between perceptions of the sample with regard to personal, relational and professional capabilities.

## **7. Findings**

### **7.1 Demographic information**

The demographical composition of the eighty (80) small business owners in this paper comprised of 48 (60%) male and 32 (40%) female respondents. The ages of the respondents ranged from 21 to 70 years, with the average age being 43 years. Five (6.25%) black respondents participated in this study. No coloured people took part in the study. Only 1 respondent (1.25%) came from the Indian race, while 73 (91.25%) came from the white (Caucasian) community and the Chinese group was represented by 1 respondent (1.25%).

This study was limited to the geographical areas of Pretoria, Johannesburg, Vaal Triangle, East Rand and West Rand areas of which the majority of respondents (91% or 73 respondents) resided in the Pretoria area. Regarding the period of ownership of a business, the majority, 55 respondents (68.75%), indicated that they owned their businesses for a period of 10 years or less. In total, 73 respondents (91.25%) owned businesses for a period of up to 20

years. The types of businesses owned were classified in nine (9) different industry types. The majority, 30 respondents (37.5%) resorted in the „Services“ group with the second most (21 respondents or 26.25%) businesses belonging to the „Retail“ industry. Data indicated that more than three-quarters, 63 respondents (78.75%) had no experience with regard to being mentored as a mentee within a business context. Only 17 respondents (21.25%) had experience in this regard. The majority, 53 respondents (66%) had no experience of acting as a business mentor previously, with the remaining 27 respondents (34%) having performed such role previously.

## **7.2 Information on respondents' capabilities**

Respondents were asked to rate themselves according to these business mentor capabilities. The majority of the respondents rated themselves as „good“ in more than 63% of the total list of capabilities. The capability that received the highest rating of all, was the relational capability of commitment, namely higher than 80%. The capability that received the lowest ranking (lower than 12%) was the relational capability of accessibility. In only seven (26%) of the total list of twenty seven capabilities the respondents rated their highest level of capability as „average“. In 75% (three of the four) of the listed relational capabilities more than 66% of the respondents rated themselves as „good.“ The majority of respondents rated themselves as „good“ in ten of the thirteen professional capabilities that were structured.

In general, the majority of the respondents rated themselves fairly positive pertaining to most of the personal, relational and professional capabilities that are important for a business mentor to make a success of a business mentoring relationship.

## **7.3 Empirical results indicating the respondents' willingness to act as a business mentor**

The majority, 46 respondents (57%) indicated an unwillingness to act as business mentors towards business mentees. The remaining 34 respondents (43%) indicated that they would be willing to act as business mentors. The 46 respondents (57%) who were unwilling to act as business mentor listed time constraints (76% respondents indicated this reason) as reason for their unwillingness.

Frequency of interaction and contact play an important role in making a business mentoring relationship successful. Out of the 34 respondents (43%) who listed willingness to act as

business mentors, almost 80% (27 out of the 34 respondents) of the respondents were willing to spend up to 5 hours per week on business mentoring. It was clearly indicated in this study that an important aspect of business mentoring lies in the fact that it has to be in the form of a relationship. Most (almost 40%) of the respondents who was willing to act as business mentors were prepared to be involved for a period of up to six months.

The majority (90%) of the respondents (42 out of the 46 respondents) indicated that they would be willing to engage in cross-cultural business mentoring, while 88% (40 out of the 46) were in favour of cross-gender mentoring.

## **7.4 Confirmation of the validity and reliability of the measuring instrument**

### **7.4.1 Factor analysis**

Factor analysis using direct quartimin (oblique) rotation was performed in order to reduce the large number of variables pertaining to business mentoring capabilities to a smaller, more manageable set of factors. The following three factors were found and are labelled as follows:

**Factor 1: Relational and professional capabilities**

**Factor 2: Personal capabilities**

**Factor 3: Business experience and knowledge**

Cronbach Alpha reliability values were calculated for the three factors. According to a study conducted by Athayde (2003:10) regarding acceptable alpha scores, an acceptable score ranged from 0.600 to 0.999. For the purpose of this paper, a Cronbach Alpha result of more than 0.6 is regarded as meaningful internal consistency. Table 3 shows the results in this regard as applied to the three factors which are explained above.

**Table 3: Cronbach Alpha results for business mentoring capabilities**

<b>Factor</b>	<b>Description of factor</b>	<b>Cronbach Alpha Value</b>
<b>Factor 1</b>	Relational and professional capabilities	0.8352
<b>Factor 2</b>	Personal capabilities	0.7348
<b>Factor 3</b>	Business experience and knowledge	0.7365

In order for the researcher to answer the stated research objectives, the relationship between the respondents' willingness to mentor, their previous engagement as a mentor or as a mentee and their mentoring capabilities are investigated.

### **7.5 Relationship between willingness to mentor, previous engagement as a mentor and mentee and mentoring capabilities**

The preceding explanation indicate the results of the factor analysis in which three factors were compiled namely, relational and professional capabilities, personal capabilities and business experience and knowledge. For the purpose of this paper, it was decided to perform inferential statistical techniques on the original three groups as identified in the literature study.

To investigate the relationship between the respondents' willingness to act as business mentors and their ratings of their business mentoring capabilities an analysis of variance (ANOVA) was performed to determine whether the rating of respondents on their mentoring capabilities differed in terms of the variables: to be willing to act as mentor, their previous experience as mentee and their previous experience as mentor. This section is structured whereby the personal mentoring capabilities and the mentioned relationships are presented, thereafter the relational mentoring capabilities and the mentioned relationships are provided and finally the professional capabilities and the mentioned relationships are stated.

The results of the relationship between the ratings of the respondents' personal mentoring capabilities and their willingness to act as business mentor and their previous experiences in a mentoring relationship (as mentor or mentee) is depicted in Table 4 (ANOVA) and Table 5 (means and standard deviations).

**Table 4: Personal capabilities: Results of ANOVA**

<b>Variable</b>	<b>DF</b>	<b>F Value</b>	<b>Pr &gt; F</b>
Would you be willing to act as a business mentor?	1	5.32	0.0238*
Have you ever been mentored by a business mentor (in a business context)?	1	0.50	0.4826
Have you ever performed the role of a business mentor previously?	1	0.04	0.8459

\* significance on 5% level

**Table 5: Personal capabilities: Means and standard deviations**

Variable	Personal capabilities	
	Mean	Std Dev
<b>Would you be willing to act as a business mentor?</b>		
Yes	2.58	0.33
No	2.38	0.33
<b>Have you ever been mentored by a business mentor?</b>		
Yes	2.54	0.31
No	2.44	0.35
<b>Have you ever performed the role of a business mentor previously?</b>		
Yes	2.53	0.34
No	2.43	0.35

The results show that the respondents who are willing to act as business mentors had a statistically significant (on the 5% level) higher rating of their personal mentoring capabilities than the respondents who were not willing to act as business mentors. There were no significant differences between the respondents who have been mentored previously and those who have not. Similarly, respondents who have mentored before do not differ significantly from those who have not mentored previously.

The results show that the respondents who were willing to act as business mentors rated themselves higher on personal mentoring capabilities than those who were unwilling to do so (mean scores indicate 2.58 versus 2.38). By consequence, this may imply that the positive ratings of the personal mentoring capabilities of the respondents who were willing to act as business mentors had a positive influence on their willingness to act as business mentors. By implication, it may also indicate that ratings of the respondents who were unwilling to act as business mentors rated themselves lower on their personal mentoring capabilities.

The relationship between the ratings of the respondents' relational mentoring capabilities and their willingness to act as business mentors and their previous experiences in a mentoring relationship (as mentor or mentee) is depicted in Table 6 (ANOVA) and Table 7 (means and standard deviations).

**Table 6: Relational capabilities: results of ANOVA**

Source	DF	F Value	Pr > F
V37 – Would you be willing to act as a business mentor?	1	1.80	0.1833
V8 – Have you ever been mentored by a business mentor (in a business context)?	1	0.29	0.5932
V9 – Have you ever performed the role of a business mentor previously?	1	0.02	0.8952

**Table 7: Relational capabilities: Means and standard deviations**

Variable	Relational capabilities	
	Mean	Std Dev
<b>Would you be willing to act as a business mentor?</b>		
Yes	2.66	0.31
No	2.54	0.40
<b>Have you ever been mentored by a business mentor?</b>		
Yes	2.65	0.39
No	2.58	0.36
<b>Have you ever performed the role of a business mentor previously?</b>		
Yes	2.62	0.36
No	2.58	0.37

Table 6 indicate that no statistical significant difference level (p-value of less than 0.05) was found regarding relational mentoring capabilities and willingness to act as business mentors. Likewise, no statistical significant difference level was indicated between respondents' ratings of their relational mentoring capabilities and previous experience as a business mentor. Identically, no statistical significant difference was found between respondents' ratings of their relational mentoring capabilities and their previous experience as a business mentee ( $p > 0.05$ ).

By means of deduction, it was found that respondents' ratings of their relational mentoring capabilities showed no relationship with their willingness to act as business mentors, or their previous experience as business mentors as well as business mentees.

The relationship between the ratings of the respondents' professional mentoring capabilities and their willingness to act as business mentor as well as their previous experiences in a mentoring relationship (as mentor or mentee) is depicted in Table 8 (ANOVA) and Table 9 (means and standard deviations).

**Table 8: Professional capabilities: Results of ANOVA**

Source	DF	F Value	Pr > F
V37 – Would you be willing to act as a business mentor?	1	3.91	0.0517*
V8 – Have you ever been mentored by a business mentor (in a business context)?	1	0.25	0.6155
V9 – Have you ever performed the role of a business mentor previously?	1	0.20	0.6590

\*significance on 10% level

**Table 9: Professional capabilities: Means and standard deviations**

Variable	Professional capabilities	
	Mean	Std Dev
<b>Would you be willing to act as a business mentor?</b>		
Yes	2.62	0.27
No	2.44	0.41
<b>Have you ever been mentored by a business mentor?</b>		
Yes	2.58	0.26
No	2.49	0.39
<b>Have you ever performed the role of a business mentor previously?</b>		
Yes	2.58	0.34
No	2.48	0.37

The results show that the respondents who are willing to act as business mentors had a statistically significant (on the 10% level) higher rating of their professional mentoring capabilities than the respondents who were not willing to act as business mentors. There were no significant differences between the respondents who have been mentored previously and those who have not. Similarly, respondents who have mentored before do not differ significantly from those who have not mentored previously.

The results further indicate that the respondents who were willing to act as business mentors rated themselves higher on professional mentoring capabilities than those who were unwilling to do so (the mean scores indicate, 2.62 versus 2.44). By consequence, this may imply that the positive ratings of the professional mentoring capabilities of the respondents who were willing to act as business mentors had a positive influence on their willingness to act as business mentors. By implication, it may also indicate that ratings of the respondents who were unwilling to act as business mentors rated themselves lower on their professional mentoring capabilities.



## **8. Discussion of findings**

The results of this paper indicate that the majority of respondents deemed themselves to possess most of the personal, relational and professional capabilities needed to act as business mentors. Despite the high perceived ratings regarding their business mentoring capabilities, only 43% of respondents indicated a willingness to act as business mentors. Therefore, the null hypothesis was accepted ( $H_1$  - South African small business owners do not have the willingness to act as business mentors), and the alternative hypothesis rejected.

Based on the conducted tests and empirical results, the forth flowing null hypotheses ( $H_2$ ,  $H_3$ , and  $H_4$ ) were rejected, and the alternative hypotheses (small business owners do have the personal capabilities needed to be good business mentors, small business owners do have the relational capabilities needed to be good business mentors and small business owners do have the professional capabilities needed to be good business mentors) were accepted. Regarding the acceptance and rejection of the stated hypotheses, many relationships were tested between the respondents' willingness to act as business mentors, their various business mentoring capabilities and previous engagements as business mentors and/or mentees.

## **9. Limitations related to this study**

Although this paper meets all applicable criteria for scientific validated research, there are some meaningful limitations that reduce the application of findings in generalised context.

Specific limitations relate to the following:

The small and relative limited sample size indicated specific elements that should be considered when conducting research on business mentor capabilities and willingness to mentor. It identified issues such as race, gender, geographical area, types of business and more, that all contribute to creating a complete picture on the topic. A larger sample size will allow for a greater selection of statistical analysis techniques and produce more substantiated grounds for conclusions. A more complete sample will provide room for extensive factor analysis and other inferential statistical analysis, which will provide better scientific validation of findings and conclusions.

Data on proper representation of race, gender, geographical areas, years of business experience, and types of business (industry), business turnover and nature of business mentoring experience will increase the variety of the results.

This study revealed very important elements pertaining to business mentoring capabilities and willingness to mentor, that need to be accounted for in the development of small business owners. The quality of the study would have been more complete if it were possible to implement triangulation of measuring mentoring capabilities with additional measuring tools, such as standardised psychological tests. Such 360° measurement will provide greater insight into the quality of the mentoring capabilities of participating respondents. A combination of qualitative and quantitative study would have delivered more complete, extensive, thorough and probing results.

## **10. Conclusion**

Generally it appears that, although the majority of South African small business owners who participated in this paper do not see their way open to act as business mentors, mainly owing to the lack of time, a substantial percentage (> 40%) are willing to do so for a period of at least six month, at the length of up to five hours per week and within cross-cultural as well as cross-gender context.

The ANOVA indicated on a 5% level of significance that the perceived personal capabilities of South African small business owners plays a role in their willingness to act as business mentors and a statistical significant difference was obtained between the variables. Relational capabilities have no such effect. Regarding professional capabilities, the ANOVA showed on a 10% level of significance that such capabilities influenced the willingness to act as business mentors. Therefore, inferential statistics revealed a positive relationship between perceived business mentoring capabilities and willingness to act as business mentors.

No significant relationship was found between the perceived personal, relational and professional capabilities of South African small business owners and their previous experiences as a business mentor or business mentee.

### ***10.1 Implications for managers / recommendations***

As indicated by Herrington *et al.* (2009:62), the poor success rate of business start-ups in South Africa relative to that of other countries necessitates the development of policy interventions aimed at giving support to such entrepreneurs. Interventions should be aimed at mentoring of entrepreneurs through the difficult process of starting and growing a business. In the researchers' opinion, after conducting this study, South African small business owners is an untapped resource that should be utilised in order to give business mentoring to these entrepreneurs. Additionally, if the perceived rewards that is gained from acting as business mentors could somehow be increased, this might lead to more current small business owners being willing to spend time with business mentees.

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**UNDERSTANDING BUSINESS SURVIVAL:  
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**KEYWORDS:** Independent financial advisers, small businesses, strategies for survival

# **UNDERSTANDING BUSINESS SURVIVAL: A PROVISIONAL FRAMEWORK FOR INDEPENDENT FINANCIAL ADVISERS**

## **ABSTRACT**

Independent financial advisers play a vital role in assisting clients to meet their financial goals. It appears, however, that additional guidance is needed for these advisers to survive in their complex business environment, governed by strict legislation. To date, only a small amount of research has been conducted in this area and no formal research study in South Africa has provided a course of direction for these advisers. Consequently, this study aimed to expand the body of knowledge by investigating the actual problems posing a threat to the businesses of independent financial advisers, as well as the strategies that can be implemented to counter those obstacles. Based on the findings a conceptual framework was proposed, suggesting key focus areas for business survival that must form part of the foundation of the financial adviser's business approach. The study concluded with a number of propositions to set the direction for future research regarding the survival and growth of independent financial advisers in South Africa.

## 1. INTRODUCTION

There can be no doubt that the Financial Advisory and Intermediary Services Act is one of the most significant pieces of legislation ever instituted in the financial services industry (Swanepoel, 2004:Preface). The main objective of the Act, which was promulgated in 2002, is to provide the core regulatory vehicle of market conduct, by regulating all the activities of financial advisers when giving financial advice to their clients (Botha, Geach, Goodall & Rossini, 2003:127).

The introduction of the Financial Advisory and Intermediary Services Act brought about many changes to the life insurance industry. Financial advisers are required to be licensed before they can operate as advisers. A licence will be granted only if a financial adviser is able to prove that he or she met all the fit and proper requirements (Anon., 2004:5). These requirements include personal character qualities like honesty and integrity, operational ability (for example having an account with a registered bank) and financial soundness (University of the Free State, 2004:5–7). In addition to the fit and proper requirements, financial advisers also have to adhere to a code of conduct as stipulated by the Act (Anon., 2004:5). The reason for the regulation is to assist financial advisers to be more advice-focused, rather than product-focused (Kruger, 2004:43). Very strict requirements in terms of the processes to be followed are provided in the code of conduct to ensure that clients are given comprehensive, objective and suitable advice (Kruger, 2004:43).

According to Kruger (2004:43), the Act has a great impact on independent financial advisers specifically, as they do not necessarily have the ability of a large company to take responsibility for all the compliance-related issues. Independent financial advisers form part of the three main categories of advisers in South Africa (Old Mutual, 2008). They are individuals or businesses that sell financial products, normally operate small businesses and are expected to give “best advice” when recommending products to clients (UK Association of Independent Financial Advisers, 2001; Wright, 2008). In addition to compliance, financial advisers have to keep record of all the requirements of the Act they complied with. Keeping records alone, however, is not sufficient. These records also have to indicate that proper advice was given to clients (Swanepoel, 2004:24). Kruger (2004:43) points out that as a result of all these requirements, financial advisers have to evaluate their business models and restructure them in such a way that their systems, procedures and staff comply with the requirements specified in the Act. To assist independent financial advisers in complying with

the Act, numerous network organisations, such as Moonstone, Compliance Consulting and Oracle Compliance, have been established across the country (MoneyMarketing, 2006:34).

These types of organisations offer valuable support and assistance, but independent financial advisers cannot only rely on their guidelines to survive and grow in the long term. Swanepoel (2004:25–26) cautions that although the Act’s compliance requirements form a significant part of the business of financial advisers and dictate their business’s activities to a great extent, focusing too much on compliance-related activities could destroy the business. As businesses progress through the various stages of organisational growth, different problems also have to be solved (Hanks Watson, Jansen & Chandler, 1993; Timmons & Spinelli, 2007:261–262).

It appears, however, that small business owners do not have the necessary competencies and skills that are required to manage the business proficiently in the long term. According to Sha (2006), within the small business sector there is weak innovation as well as an absence of financial acumen, marketing, entrepreneurial flair, practical knowledge and human resource management. Because of these pitfalls, many small businesses do not reach their full potential and fail to grow. Statistics reveal that the failure rate for small businesses in South Africa specifically can be regarded as one of the highest in the world. Approximately 75% of new small businesses in South Africa do not survive. In fact, the probability that a new small business will survive more than 42 months is lower than in any other Global Entrepreneurship Monitored (GEM) sampled country (Olawale & Garwe, 2010:730).

Consequently, given the background described above, it appears that additional guidance is needed to assist independent financial advisers with the survival and growth of their small businesses. For them to survive and grow in their competitive and complex business environment, they would need more insight into the actual problems posing a threat to their businesses, as well as the strategies that can be implemented to counter those obstacles.

To date, only a small amount of research has been conducted in this area and no formal research study in South Africa has provided a course of direction for these advisers who perform a vital role in assisting clients to meet their financial goals.

## **2. PROBLEM INVESTIGATED**

Independent financial advisers operating small businesses perform a vital role in assisting clients to meet their financial goals. A number of authors (such as Sha, 2006, and Olawale and Garwe, 2010), however, are of the opinion that small business owners do not have the necessary competencies and skills required to manage the business proficiently, due to the fact that there is weak innovation as well as an absence of financial acumen, marketing, entrepreneurial flair, practical knowledge and human resource management. It consequently appears that additional guidance is needed for these advisers to survive in their complex business environment, governed by strict legislation.

This study investigated the matter further and attempted to design a conceptual framework, providing guidelines on important focus areas for business survival. It is hoped that the propositions formulated from the various recommendations provided will stimulate more research on this very important topic.

## **3. RESEARCH OBJECTIVES**

The objectives of this study were therefore:

- To gain more insight into the actual problems posing a threat to the businesses of independent financial advisers as well as the strategies that can be implemented to counter those obstacles.
- Resulting from the investigation, to develop a conceptual framework that would suggest key focus areas for the business survival of independent financial advisers.
- To formulate a number of propositions and set the direction for future research regarding the survival and growth of independent financial advisers in South Africa.

## **4. LITERATURE REVIEW**

To achieve the objectives of this study, the literature review focused on the various problems that independent financial advisers could possibly experience as well as potential solutions that can be implemented to address those obstacles. The empirical part of this study then verified if the potential problems and solutions proposed do in actual fact occur in the businesses of independent financial advisers.

#### **4.1 Problems threatening business survival**

Over the years a number of studies have been conducted to determine the obstacles confronting businesses. Arinaitwe (2006), for example, believes that the small business owners' technological capabilities or lack thereof is one of the main reasons why they still continue to face growth challenges – despite the support provided by the government and other organisations. Without technological capabilities, small business owners find it difficult to compete and grow their businesses. Hill, Nancarrow and Wright (2002:366), in another study conducted among small business owners in Britain and the USA, discovered that the typical problems that can be experienced by these owners include location, changing client needs, lack of finance, rapid early growth, poor general management skills, declining sales, competition, service, price and a changing market environment. Based on a research study of small business owners in Gauteng (South Africa), Brink, Cant and Lightelm (2003) claim that the success of the businesses is influenced by macroenvironmental variables, marketing-related issues, management skills, management actions, social problems, human resource problems and financial problems.

Timmons and Spinelli (2007:260–261, 536–538) have identified similar types of business obstacles, but went one step further and associated these problems with the different life cycle stages of a business. They further postulate that while there are a great variety of problems which a business might have to concentrate on, the problems they highlight are particularly critical for the business and, if not overcome, can seriously imperil the business.

Consequently, in view of this statement, the researcher mainly investigated the problems that were pointed out by Timmons and Spinelli (2007:260–261, 536–538). If the independent financial advisers in this study were found to experience these problems, it would be vital to identify appropriate solutions to them.

Furthermore, since this study was only exploratory in nature and aimed to provide some insight into key focus areas for business survival, an attempt will not be made in this paper to associate the problems investigated with the different business life cycle stages of independent financial advisers. Rather, they are approached as a list of obstacles that could potentially hinder the survival of their businesses. A further research study could be conducted in future to group the actual problems experienced by the advisers into their various business life cycle stages.

Lastly, from a holistic perspective, it is possible to categorise the problems mentioned by Timmons and Spinelli into three main categories, namely poor delivery of customer service, lack of sufficient information and inadequate resource management (refer to Table 1 below). The discussion of Timmons and Spinelli’s problems and potential solutions in the remaining part of the literature investigation will subsequently be structured around these three areas.

**Table 1:** Critical business problems examined in relation to their relevant categories

Category	Problems examined	Code
Poor delivery of customer service	Too many responsibilities, therefore struggled to meet deadlines.	P1
	Lost customers who experienced unsatisfactory service from business.	P2
	Could not meet high demand of the market for the business’s services.	P3
Lack of sufficient information	Did not know all the competitors who had entered the market.	P4
	Did not have access to external networks (such as the Financial Planning Institute) that could help grow the business.	P5
	Commission reduced through unexpected activities of competitors.	P6
Inadequate resource management	Attempted to perform all the business activities alone.	P7
	Experienced lack of teamwork for a “greater purpose”.	P8
	Sometimes in conflict with partners over control of business.	P9
	Struggled with inadequate financial resources.	P10

Source: Timmons and Spinelli (2007:260–261, 536–538)

#### 4.2 Poor delivery of customer service

*Business owners might struggle to meet deadlines due to the fact that they have too many responsibilities (P1).* In the business context of an independent financial adviser, this statement could, for example, refer to a situation where they are unable to meet a client and discuss their financial strategy as arranged with them, due to the fact that they have too many errands they need to run. This problem could potentially be overcome by recruiting four types of employees as indicated by Jordaan and Prinsloo (2001:168), namely back office personnel, receptionist, sales personnel and personnel involved in the research and development of the marketing strategy that could assist the business owner in meeting the deadlines. Independent financial advisers would further need to ensure that these employees are remunerated sufficiently, as Jordaan and Prinsloo (2001:171) warn that employees who

are not happy with their remuneration could cost the business more than the wages they are being paid through client loss.

*Business owners could also experience a loss in customers who experienced unsatisfactory service from the business (P2).* Motivating employees appropriately to provide a positive service encounter might be a solution that small business owners could implement to address this problem. An employee's level of motivation when interacting with clients will greatly influence the outcome of the service encounter. In a study conducted by Hennig-Thurau (2004) among 989 students in Germany, it was discovered that the service employees' motivation to serve the clients in a customer-oriented manner as well as their social and technical skills impacted on the clients' satisfaction, emotional commitment and, as a result, the economic success of the business.

Various measures can be implemented to enhance the level of motivation of the employees. Baker (2003:369), however, cautions that the employees' age should be taken into consideration when evaluating a motivational scheme, since different factors will motivate employees at a specific age. Older employees with larger families, for example, might prefer financial rewards, while younger, better educated employees with no families could prefer higher order rewards, such as recognition, respect and a sense of accomplishment.

*Business owners may struggle to meet the high demand of the market for their business's services (P3).* In the business context of an independent financial adviser, this problem could refer to a situation where the adviser is unable to meet all the clients who contacted the business and assist them with their financial planning. Jordaan and Prinsloo (2001:222–224) believe that a solution to the imbalances between supply and demand is presented through the distribution function of service businesses. Employees can be cross-trained to perform different job functions at peak periods. In the world of the financial adviser, this approach would, for example, mean that when the demand for the service is high, the secretary could assist in preparing quotations and completing application forms. This could then free the financial adviser's time to see more clients and sell policies to them.

#### **4.3 Lack of sufficient information**

*The first problem listed under this category entails not knowing all the competitors who have entered the market (P4).* Independent financial advisers might not, for example, be aware of all the other financial advisers that are also targeting their specific market segment. A



potential solution to this problem could be to apply quality control in the service process to create a favourable impression among clients, thus convincing them to rather make use of the adviser's services. According to Zeithaml, Bitner and Gremler (2009:25), clients base their judgement of the service provided on the business's service process. "[I]f an organization can deliver a high quality of service, its customers will receive better value and are more likely to be satisfied" (Ennew & Waite, 2007:326). Previous research studies have proven this scenario to be true (Cronin & Taylor, 1992; Zeithaml, Berry & Parasuraman, 1996).

Mazzarol (2004) conducted a study of small businesses in the UK and Australia to investigate the connection between their operational practices and the high sales growth they achieved. The results revealed that the relationship these small businesses had built with their clients, employees, suppliers and support networks was a critical factor in their success. These findings are in keeping with another study conducted by Coopers and Lybrand in 1993 (Anon., 1993:5) among 400 high sales growth small businesses. Their study indicated that the small businesses with strategic alliances experienced an 11% higher sales turnover than those that had no network relationships.

*Consequently, a lack of external networks (where information could be shared) to continue business growth has been listed in Table 1 as another potential problem that independent financial advisers could experience in their businesses (P5).* Following the network activities and resulting benefits discussed above, however, it appears that independent financial advisers would have to focus on building good relationships with their employees, suppliers (such as insurance companies) and support networks (e.g. the Financial Planning Institute) to address the problem and to grow their businesses.

*Small business owners could also experience the problem of a reduction in commission through the unexpected activities of their competitors (i.e. other financial advisers) (P6).* To address this problem, independent financial advisers could potentially make use of the strategies recommended by Timmons and Spinelli (2007:139–141) and Lovelock (1996:472) to improve their competitive intelligence. These strategies include investigating published resources such as formal business information guides, the Internet, journal articles, market studies and client expenditures; other resources including trade associations, employees and consulting firms; networking and conducting competitive market surveys to compare the business relative to its competitors.

#### **4.4 Inadequate resource management**

*Business owners could attempt to perform all their business activities alone and not rely on their employees for assistance (P7).* This approach, however, would not be feasible for advisers wishing to grow their businesses. Timmons and Spinelli (2007:261–262) recommend that this type of small business owner refrain from following an autocratic management style to manage employees who strive for achievement, responsibility and results. A more correct approach would be to focus on close collaboration with employees and entrusting power and control to them.

*Independent financial advisers, however, might in their attempts to work closely with their employees experience a lack of teamwork for a “greater purpose” (P8).* According to Zeithaml *et al.* (2009:369), a potential solution to this problem would be to ensure that every employee is aware of the essential role they play in the final delivery of quality service. This will promote teamwork and enable the employees to deliver excellent service.

*Another potential problem that might occur involves being in conflict with partners over control of the business (P9).* Timmons and Spinelli (2007:267) suggest that proficient business managers follow a distinct conflict management approach. Characteristics of creativity are normally displayed, consensus is generated and information is shared. In addition, they also facilitate discussion regarding problems, do not become defensive when others disagree with their views and rather blend ideas. Timmons and Spinelli conclude that the benefits proficient business owners gain from following this approach include motivation, commitment and teamwork. In addition, new disagreements do not restrain business growth, since there is both high clarity and broad acceptance of the overall goals and underlying priorities.

The conflict management description given by Timmons and Spinelli, which can assist businesses in benefiting from unrestricted business growth, therefore presents a possible solution that independent financial advisers could implement to address the problem of conflict between partners over business control.

*The final potential problem listed in Table 1 which businesses could encounter entails experiencing difficulties with inadequate financial resources (P10).* Cunningham and Hornby (1993) present a potential solution to this problem. In a survey which investigated 12 small business case studies in the UK, it was found that these small business owners attempted, by

operating from a low-cost venue such as their houses, to keep their overhead expenses as low as possible. The rationale was that if the business overheads were kept low, the business would be able to establish competitive pricing strategies independently of business overheads. Other businesses have also implemented this approach successfully in more recent years (Read, 2004:227). In the business context of an independent financial adviser, reduced overhead expenses would enable them to charge lower commission and consequently make their services more attractive to clients.

## **5. RESEARCH METHODOLOGY**

In section 3 it was pointed out that the purpose of the study was to gain more insight into the actual problems posing a threat to the businesses of independent financial advisers as well as the strategies that can be implemented to counter those obstacles. Resulting from the investigation, a conceptual framework was developed that suggests key focus areas for the business survival of independent financial advisers.

The field study was conducted in two phases.

Telephone interviews were conducted first to determine whether the respondents qualified to participate in this study and to gain more insight into their demographic data, including business age, number of personnel employed, employee growth and types of specialist roles performed.

The population of this study was independent financial advisers in Johannesburg operating small businesses that advised on and sold financial products during the 12-month period of 1 August 2006 to 31 July 2007. Since it was not possible to obtain an exact list of the population, the researcher made use of the names and contact details provided by the Financial Services Board of the 1 024 independent financial advisers in Johannesburg who were registered with them and who had taken on the business form of a natural person. The first three questions of the telephone interview then verified whether the respondent qualified to participate in this study.

The non-probability convenience sampling technique was used for the telephone interviews. This study was exploratory in nature and no scientific representative conclusions would be made. The limitations of the convenience sampling method, as highlighted by Stevens, Wrenn, Sherwood and Ruddick (2006:188), would therefore not affect the research objectives of this

study. Furthermore, the data was collected by a professional interviewer who made use of a structured questionnaire. All the respondents also had to answer the same series of questions.

Only every second person on the list provided by the Financial Services Board was contacted for a telephone interview. This sample size of 512 respondents (1 024/2) was affordable and also in accordance with the guidelines presented by Stevens *et al.* (2006:191–192). A total of 133 respondents were successfully interviewed by telephone (response rate 27,14%).

In the second phase of the field study, information on the problems experienced and solutions implemented was then collected, by means of personal interviews. The respondents were presented with a range of interview cards and had to confirm which of the various potential problems identified in the literature review they actually encountered in their businesses and also whether they made use of any of the solutions proposed to address the relevant problems. The interviewer recorded their answers on the structured questionnaire.

Only independent financial advisers who indicated in the telephone interviews that they experienced commission growth in their businesses (for the period 1 August 2006 to 31 July 2007) were interviewed in the second phase of the field study. The rationale for this approach was that according to Mellahi and Wilkinson (2004), a detailed investigation would be needed to gain an adequate understanding of the behaviour of businesses in the decline stage. This study, however, mainly intended to conduct a small-scale exploratory investigation into problems experienced and solutions implemented for survival by financial advisers. A thorough investigation into the actions of businesses in the decline stage would have been costly and fell outside the ambit of this study.

In phase one, a total of 76 respondents indicated that they experienced commission growth in their businesses. All 76 respondents were contacted for a personal interview. However, only 50 of these respondents were willing to discuss the business obstacles that they experienced and the strategies they implemented in their businesses. Forty-four of the interviews were conducted in person. The other six respondents had extremely busy schedules and were only willing to be interviewed by telephone. These six respondents were asked the same questions that were intended for the personal interviews and great care was taken to ensure that the respondents understood the questions properly and that the answers were probed in full. Based on the number of financial advisers contacted and the number of interviews that were completed, the response rate for the second phase of the field study was 65,79%.

Although only 50 respondents participated in the second phase of the field study, the use of this relatively small sample size for analysis can be justified:

- Stevens *et al.* (2006:190–191) point out that in practice numerous research institutions use a typical sample size of 50 to 200 respondents when conducting research among business respondents that are region specific, and null to four subgroups are involved. The sample of 50 interviews in the second phase of the field study matches the lower end of this range.
- Moreover, this study was exploratory in nature and involved mainly the investigation of business obstacles experienced and strategies employed by independent financial advisers. This study did not propose any scientifically representative conclusions.

The fieldwork was conducted in Johannesburg from September to November 2007.

The validity of the study was ensured through the pre-testing of the telephone and personal interview questionnaires among a small number of independent financial advisers with characteristics similar to those of the respondents of this study.

## **6. EMPIRICAL FINDINGS**

### **6.1 Demographic profile of respondents**

The telephone interview results showed that the oldest business examined in this study was more than four decades old (44 years) while the youngest was less than 1 year old. Half of the respondents' businesses were between 7 and 19 years of age. The median value is 11 years and the interquartile range of the results is 12 years. Of the 133 respondents who participated in the telephone interviews, 47% had no employee growth in their businesses (for the period 1 August 2006 to 31 July 2007). Eight of the respondents (6,01%) experienced negative employee growth in their businesses and a total of six respondents (4,51%) encountered positive employee growth in their businesses in the relevant period.

### **6.2 Business obstacles experienced**

The personal interviews revealed that the respondents did experience all the problems investigated in their businesses. However, as indicated in Table 2 below, some problems were experienced more frequently than others.

**Table 2:** Frequency of problems experienced

Category	Problems examined	Code	Frequency n=50
Poor delivery of customer service	Too many responsibilities, therefore struggled to meet deadlines.	P1	54%
	Lost customers who experienced unsatisfactory service from business.	P2	32%
	Could not meet high demand of the market for the business's services.	P3	4%
Lack of sufficient information	Did not know all the competitors who had entered the market.	P4	4%
	Did not have access to external networks (such as the Financial Planning Institute) that could help grow the business.	P5	6%
	Commission reduced through unexpected activities of competitors.	P6	6%
Inadequate resource management	Attempted to perform all the business activities alone.	P7	62%
	Experienced lack of teamwork for a "greater purpose".	P8	24%
	Sometimes in conflict with partners over control of business.	P9	2%
	Struggled with inadequate financial resources.	P10	26%

Considering the results displayed in Table 2 it is possible to further categorise the problems experienced by the respondents into three different groups.

Attempting to perform all the business activities alone was the problem most experienced by the respondents (62%), followed by the problem of having too many responsibilities and therefore struggling to meet deadlines (54%). These two problems were the only obstacles experienced by more than half of the respondents interviewed and were also encountered approximately twice as many times as problems P2, P8 and P10 (the problems that received the next highest responses). Accordingly, this study regarded the problems of performing all the business activities alone and experiencing difficulties in meeting deadlines as important obstacles which the financial advisers would need to predominantly focus on in their business approach to survive and succeed.

About one-third of the respondents (32%) indicated that they had encountered the problem of losing customers who experienced unsatisfactory service from the business, while approximately one-quarter of the respondents said that they experienced a lack of teamwork for a “greater purpose” (24%) and struggled with inadequate financial resources (26%). Since these problems received the next highest responses after the two problems most experienced, this study regarded them as problems on which the financial advisers would need to place a secondary focus in their business approach to survive and succeed.

The remaining five problems listed in Table 2 were each experienced by less than 10% of the respondents who participated in this study. These problems were not very common within the businesses of the respondents and this study subsequently regarded them as obstacles that only need marginal attention in the business survival approach of the independent financial adviser. Independent financial advisers should not devote a large amount of attention and resources to them, but should only be aware of the problems and must be able to address them adequately should they occur.

### **6.3 Solutions implemented**

#### *6.3.1 Problems requiring a predominant focus*

In section 4.4 it was stated that business owners wishing to grow their businesses should refrain from following an autocratic management style to manage employees who strive for achievement, responsibility and results. A more correct approach would be to focus on close collaboration with employees and entrusting power and control to them. The personal interviews revealed that a total of 64,52% of the respondents who experienced the problem of performing all the business activities themselves indicated that they had started modifying their approach and delegating more responsibilities to their employees.

It is further important to note that if all of the remaining 19 respondents who did not experience business problem P7 used their employees to help them do their work, then the maximum number of respondents who would have been able to apply the delegation solution would have been only 15. (A total of 34 respondents who experienced commission growth had employees.) However, since it was possible that some or all of the 19 respondents who did not experience the business problem could have outsourced some of their functions to other suppliers, the data is correct; 20 respondents could have changed their approach and started delegating power and authority to their employees.

In section 4.2 it was mentioned that a potential solution to overcome the problem of meeting deadlines (P1) entails employing personnel in different roles that could assist the business owner to meet the deadlines.

This solution was implemented by 55,56% of the respondents who experienced business problem P1. (Although only six respondents experienced employee growth, the results are still possible. Some respondents might have lost employees during the period 1 August 2005 to 31 July 2006 and then recruited the same number of new employees during the period 1 August 2006 to 31 July 2007. These respondents would then not have had any employee growth in their businesses, but would have been able to implement the solution proposed.)

It further seems that the independent financial advisers did not utilise this approach to its full potential. In section 4.2 the four types of roles that employees can perform were mentioned, namely back office personnel, personnel involved in the research and development of the marketing strategy, receptionists and sales personnel. The respondents, in contrast, employed mainly administration workers (58,82%) and this was also the most popular type of specialised role that was performed. These advisers might have been in a better position to manage their time more productively if they also used the other types of roles mentioned in section 4.2.

### *6.3.2 Problems requiring a secondary focus*

Motivating employees appropriately to deliver a positive service encounter was identified in section 4.2 as a possible solution small business owners could implement to address the problem of a loss in customers who experience unsatisfactory service from the business. It appears that the financial advisers did make use of this approach to address this problem.

Four motivational techniques were investigated, namely the provision of financial rewards, recognition, respect and a sense of accomplishment. The empirical results revealed that compared to the 16 respondents who experienced business problem P2, the individual response rate for motivating younger employees with financial rewards, recognition, respect or a sense of accomplishment was 31,25% each, that for motivating older employees with financial rewards was 12,50%, that for motivating older employees with recognition or a sense of accomplishment was 25% each and that for motivating older employees with respect was 31,25%.



It therefore seems that the financial advisers made equal use of the various motivational techniques to motivate younger employees and more frequently made use of respect to motivate older employees.

The empirical results further revealed that 11 of the 12 respondents (91,67%) who experienced a lack of teamwork for a greater purpose (P8) made use of the approach proposed in section 4.4. This strategy ensures that every employee is aware of the essential role they play in the final delivery of quality service and as a result enables the employee to deliver excellent service.

To solve the problem of inadequate financial resources, it was proposed in section 4.4 that financial advisers work from home to save on overhead expenses. This solution appears to be popular among the respondents. A total of 53,85% of the respondents who experienced the problem applied this approach in their businesses.

### *6.3.3 Problems requiring only a marginal focus*

In section 4.2 it was proposed that the employees of independent financial advisers be cross-trained to perform different job functions at peak periods. This would solve the problem of an inability to meet the high demand for the business's services (P3). The empirical results revealed that both the respondents who experienced the problem of high demand actually made use of this solution.

The training of employees to perform different job functions at peak periods, however, might have been more popular as a marketing mix strategy for sales growth if more than only 34 advisers who experienced commission growth had had employees in their businesses. The potential of this approach to lead to sales growth should therefore be further assessed in future when more independent financial advisers appoint employees in their businesses.

In section 4.3 it was highlighted that independent financial advisers might not, for example, be aware of all the other financial advisers that were also targeting their specific market segment (P4). To address this problem, it was proposed that the advisers apply quality control in the service process delivery to create a favourable impression among clients, thus convincing them to rather make use of the adviser's services. Only one of the two advisers who experienced this problem made use of the proposed solution.

Following the network activities and resulting benefits discussed (see section 4.3), it appears that independent financial advisers would have to focus on building good relationships with their employees, suppliers (such as insurance companies) and support networks (e.g. the Financial Planning Institute) to address the problem of a lack of external networks (P5). Two of the three respondents who experienced this business problem (66,67%) met competitors occasionally and the other respondent (33,33% of the respondents who experienced the business problem) focused on building relationships with clients.

The respondents did not include their employees in their network strategies. It is possible that the staff members were not really a good source of referrals and would therefore not be able to help the advisers obtain more clients. The respondents would also need good relationships with insurance companies to ensure that their clients' policies are issued on time and that their commission is paid to them. A potential reason why the respondents did not include suppliers (such as insurance companies) in their network strategies could be that they did not really believe these suppliers would be willing to help them with client referrals and to improve their businesses. This matter would also need to be investigated further in a future research study.

To address the problem of a reduction in commission through the unexpected activities of competitors (P6), it was proposed in section 4.3 that independent financial advisers could potentially make use of the strategies recommended by Timmons and Spinelli (2007:139–141) and Lovelock (1996:472) to improve their competitive intelligence. The empirical results, however, showed that of the three respondents who experienced the relevant problem, only networking was implemented as a solution. The response rate for the networking solution was 33,33%.

The conflict management description given by Timmons and Spinelli (2007:267), which can assist businesses in benefiting from unrestricted business growth, was presented in section 4.4 as a possible solution that independent financial advisers could implement to address the problem of conflict between partners over business control (P9). The one respondent who had a business partner applied only the strategies of facilitating discussion regarding problems and blending ideas to address the conflict that he experienced with his partner.

## 7. DISCUSSION

Following the empirical findings, it is possible to make the following observations:

Firstly, concerning the business problems requiring a predominant focus, it appears that independent financial advisers experiencing the problem of performing all the business activities themselves should rather focus on close collaboration with employees and entrusting power and control to them. This approach was recommended by Timmons and Spinelli (2007:261–262) and was also used by 64,52% of the respondents interviewed to address the problem.

To effectively manage their resources, meet deadlines and thereby improve the delivery of customer service, independent financial advisers would first need to pay more attention to their employment practices. They need to appoint more employees in the capacity of back office personnel, personnel involved in the research and development of the marketing strategy, receptionists and sales personnel that can assist them efficiently in the execution of all the business's responsibilities.

Secondly, concerning the business problems requiring a secondary focus, it appears that independent financial advisers can make use of various strategies to motivate employees to deliver better customer service and address the problem of a loss in customers. The motivational strategies investigated in this study, however, do not appear to be very popular, as the respondents in general did not seem to make extensive use of the motivational techniques proposed. It is possible that some of the financial advisers who experienced a loss in customers either had no employees or made use of other types of motivational techniques. A further research study could investigate more appropriate motivational techniques.

The success of the motivational strategies would also be dependent on whether the independent financial adviser's employees are able to work effectively in a team. As mentioned in section 6.3.2, this could be accomplished by ensuring that the employees understand the roles they need to perform.

This approach might also have been applied more effectively if the financial advisers managed their resources more effectively and made use of more specialist roles in their businesses (that could help them to carry out the different functions in the business at an optimum level) and ensured that their employees understood and were able to perform these

roles. Role duplication, which could result in further conflict among employees, could then have been avoided.

Independent financial advisers struggling with inadequate financial resources should follow the example of other advisers and consider the popular approach of operating their businesses from home.

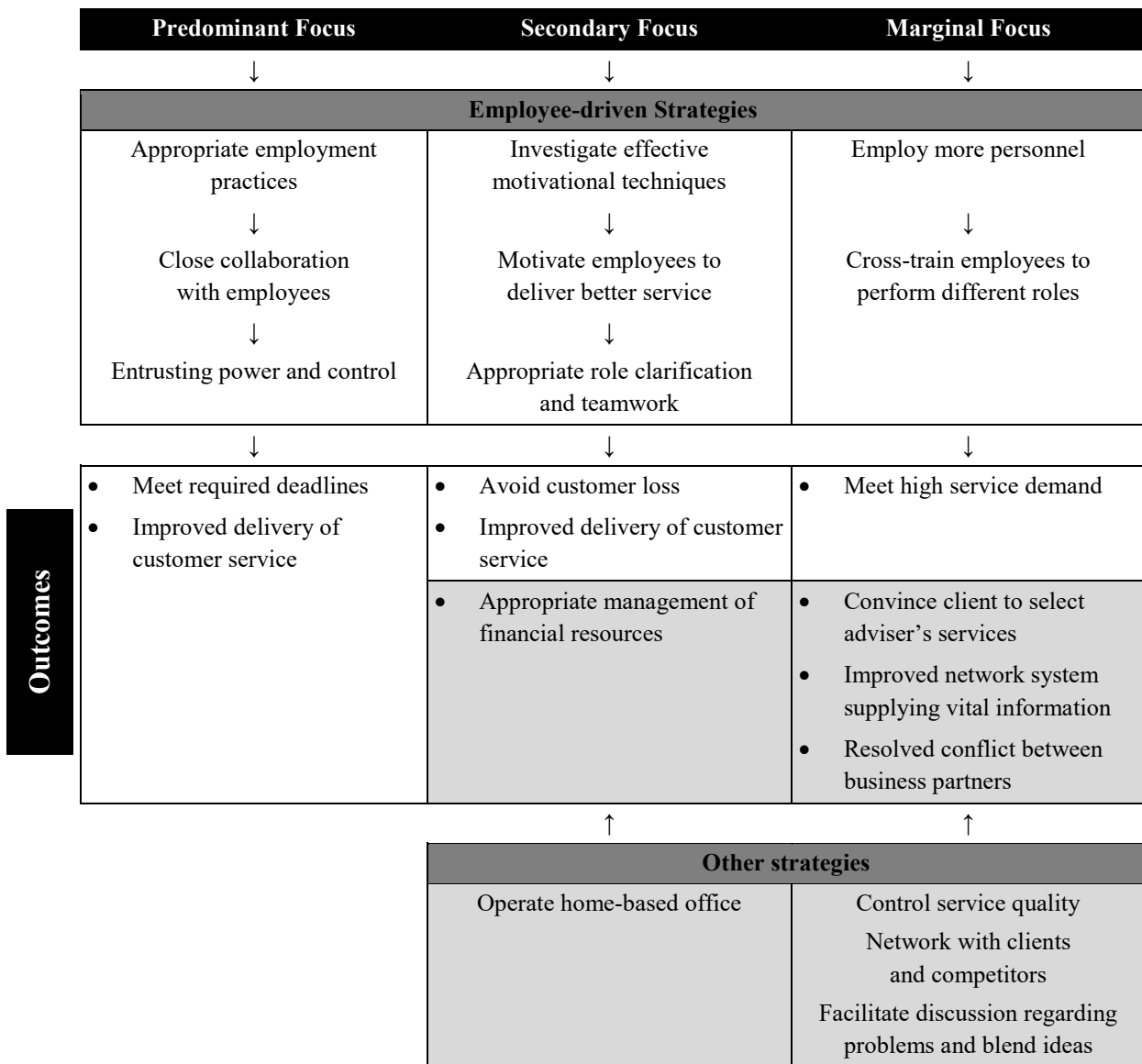
Thirdly, since only a few of the respondents encountered the problems requiring a marginal focus, the response rate for the proposed solutions was subsequently also very low. Independent financial advisers should therefore merely reflect on these strategies, and approach them should they experience similar types of problems.

Consequently, given the number of observations that could be made in this section it is now possible to propose the conceptual framework of this study and suggest key focus areas for the business survival of independent financial advisers.

## **7.1 Conceptual framework**

The conceptual framework proposed in this study is outlined in Figure 1 below:

**Figure 1: Key focus areas for business survival of independent financial advisers**



- **Employee-driven strategies**

Given the findings of this study, it appears that the solutions that were implemented by the financial advisers and that could subsequently be recommended are primarily based on employee-driven factors. All the strategies listed in Figure 1, except four, require the involvement of employees.

- **Three focus areas**

Independent financial advisers would need to divide their business survival plans into three different focus areas. They would first need to pay attention to the strategies recommended under the predominant focus pillar, as these represent solutions to the

problems that occurred most frequently among the respondents. Secondly, they would need to consider the strategies recommended under the secondary focus pillar, as these represent solutions to the problems that received the next highest responses after the two problems most experienced. The strategies recommended under the marginal focus pillar represent solutions to the problems that were not encountered by many respondents. Independent financial advisers would therefore only need to pay attention to them should they experience similar types of problems.

The flow of strategies proposed in this framework can be summarised as follows:

- **Predominant focus pillar and outcomes**

Independent financial advisers would need to appoint more employees in the capacity of back office personnel that could assist with administration duties, personnel involved in the research and development of a marketing strategy for the adviser, receptionists and sales personnel (for example a second financial adviser) that can assist them efficiently in the execution of all the business's responsibilities. Once the required roles of specialisation have been filled, independent financial advisers should work closely with their employees. They should entrust power and control to them, thereby allowing them to assist in meeting deadlines and improving the delivery of customer service.

- **Secondary focus pillar and outcomes**

Independent financial advisers would first need to investigate effective motivational techniques which they could apply in their businesses. The type of technique would be different in each business and would depend on the age as well as the value systems of the employees. Once an appropriate motivational technique has been identified, independent financial advisers should focus on motivating their employees to deliver a better service to their customers. To avoid role duplication and a potential conflict situation (and thereby demotivating the employees), independent financial advisers would need to ensure that everyone in the business can work together as a team and has a clear understanding of whether they would be responsible for performing administration duties, marketing functions or providing financial advice to clients.

The effective implementation of these strategies could result in improved delivery of customer service and customer retention.

As an additional approach under the secondary focus pillar, independent financial advisers could then also consider operating their business from home to reduce their overhead costs and subsequently manage their financial resources more efficiently.

- **Marginal focus pillar and outcomes**

Independent financial advisers should focus on employing more personnel and then cross train them to perform different functions, such as assisting in compiling quotations, completing application forms, conducting a financial needs analysis for clients and following up on complicated queries with insurance companies. This approach would assist the financial advisers in meeting the high demand for their business's services during peak periods and clients would not have to be turned away.

Finally, independent financial advisers could also focus on controlling the quality of all the elements of their financial service delivery, network with clients and other advisers to obtain vital competitive information and ensure open communication with their business partners to resolve conflict situations and win market share for the business.

## **8. TOWARDS A RESEARCH AGENDA**

This study identified actual problems posing a threat to the businesses of independent financial advisers as well as the solutions that can be implemented to counter those obstacles.

However, given the fact that none of the problems investigated actually received a very high response rate, the question remains whether these problems can be viewed as critical in the businesses of independent financial advisers and whether these advisers should not rather pay more attention to other problems that might impose a greater threat to their businesses. Consequently, the first proposition that can be formulated and investigated further in a future research study is as follows:

**Proposition 1:** There is still a range of unknown critical problems that could specifically threaten the business survival of independent financial advisers.

The conceptual framework proposed suggested that independent financial advisers should divide their business survival plans into three different focus areas, namely a predominant focus pillar, a secondary focus pillar and a category that only needs marginal attention.

These pillars were created based on the fact that the independent financial advisers should pay more attention to the solutions to the problems that occur more frequently. A future research study would need to investigate whether the problems that occurred more frequently in the businesses of the advisers should then also be viewed as more critical than the obstacles that occurred on a less frequent basis. Consequently, the following two additional propositions can be formulated:

**Proposition 2:** The problems requiring a predominant focus from the financial advisers are more critical than the other problems investigated.

**Proposition 3:** The problems requiring a secondary focus from the financial advisers are more critical than the problems requiring only marginal attention from the financial advisers.

From the conceptual framework proposed it became clear that independent financial advisers would need to pay more attention to their employment practices if they were to overcome the problems most experienced in their businesses and survive. This approach would initially be very expensive to execute and it is suggested that independent financial advisers currently operating on a small scale consider appointing only one or two additional employees as a start to help them perform the various functions of the business and meet the deadlines.

The question that still remains then is whether this approach would be sustainable and assist the financial adviser's business to survive in the longer term. Consequently, the fourth proposition that can be formulated from the results and that should be investigated further in a future research study is as follows:

**Proposition 4:** Independent financial advisers will fail in the long term if they do not pay sufficient attention to their employment practices.

Finally, it was mentioned in section 4.1 that since this study was only exploratory in nature and aimed to provide some insight into key focus areas for business survival, an attempt would not be made in this paper to associate the problems investigated with the different



business life cycle stages of independent financial advisers, but rather to approach them as a list of obstacles that could potentially hinder the survival of their businesses. It was also recommended that a further research study be conducted in future to group the actual problems experienced by the advisers into their various business life cycle stages.

Consequently, the final research proposition that could then be formulated and that should be investigated further is:

**Proposition 5:** Independent financial advisers experience different problems in each stage of the business life cycle.

## 9. CONCLUSIONS

For independent financial advisers to survive and grow in their competitive and complex business environment, they require more insight into the actual problems posing a threat to their businesses as well as the strategies that can be implemented to counter those obstacles.

This study expanded the body of knowledge and developed a conceptual framework, suggesting key focus areas for business survival that need to form part of the foundation of the adviser's business approach.

Resulting from the recommendations, a number of propositions were also formulated to set the direction for future research regarding the survival and growth of independent financial advisers in South Africa.

It is hoped that these propositions will stimulate further research on this very important topic and would lead to the provision of additional guidance to independent financial advisers to survive and grow their businesses in the long term.

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